REPORT OF

ANGELES CHEMICAL CO., INC.

APRIL 30, 1987

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ARCHER, BULMAHN & CO.
CERTIFIED PUBLIC ACCOUNTANTS

ARCHER, BULMAHN & CO.
CERTIFIED PUBLIC ACCOUNTANTS

626 SOUTH LAKE AVENUE · PASADENA, CALIFORNIA 91106

To the Board of Directors
Angeles Chemical co., Inc.

We have compiled the accompanying balance sheet of Angeles Chemical Co., Inc. as of April 30, 1987 and the related statement of income and changes in financial position for the quarter and year then ended, in accordance with standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or performed a review service on the accompanying financial statements, and accordingly, do not express an opinion or any other form of assurance on them.

Management has elected to omit substantially all of the disclosures required by Generally Accepted Accounting Principles. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the company's finandial position. Accordingly, these financial statements are not designed for those who are not informed about such matters.

Archer, Bulmahn & Co.
CERTIFIED PUBLIC ACCOUNTANTS

August 18, 1987

ANGELES CHEMICAL CO., INC.
BALANCE SHEET
(Unaudited)
APRIL 30, 1987

ASSETS

CURRENT ASSETS		
Cash	$ 202,302	
Accounts Receivable (net of allowance for doubtful accounts of $21,897)	1,322,518	
Inventories, at cost	794,309	
Prepaid expenses	206,649	
Total current assets		$ 2,525,778
FIXED ASSETS		
Property, plant and equipment (net of accumulated depreciation of $868,342)	692,882	
Construction in progress	39,765	
Total fixed assets		732,647
OTHER ASSETS		
Deposits		7,944
Total assets		$ 3,266,369

LIABILITIES AND CAPITAL

CURRENT LIABILITIES		
Accounts payable, trade	$ 608,975	
Accrued expenses	68,025	
Deposits	198,088	
Note payable (Bortz Oil) - current maturity	193,289	
Total current liabilities		$ 1,068,377
LONG TERM LIABILITY		
Note payable (Bortz Oil)		75,888
CAPITAL		
Capital stock ($ .10 par value, 1,000,000 shares authorized, 54065 shares issued and outstanding	5,406	
Paid in capital in excess of par	105,724	
Retained earnings	2,010,974	
Total capital		2,122,104
Total liabilities and capital		$ 3,266,369

See accountant's compilation report.

ARCHER, BULMAHN & CO.
CERTIFIED PUBLIC ACCOUNTANTS

ANGELES CHEMICAL CO., INC.
STATEMENT OF INCOME
(Unaudited)
YEAR ENDED APRIL 30, 1987

SALES		$10,520,887
LESS: COST OF SALES		7,786,708
Gross profit		2,734,179
OPERATING EXPENSES		
Salaries and wages	822,015	
Selling and promotion	432,458	
Shipping	247,754	
Insurance	188,128	
Repairs and maintenance	181,892	
Manufacturing	160,620	
Depreciation	156,892	
Rent	112,000	
Employee benifit programs	88,541	
Business taxes and licenses	88,249	
General and administrative	59,938	
Utilities and telephone	40,999	
Professional services	34,166	
Bad debts	26,320	
Total operating expenses		2,639,972
Operating Income		94,207
OTHER INCOME		
Interest and dividends	39,167	
Discounts	6,509	
Demurrage	2,684	
Miscellaneous income	24,887	73,247
OTHER EXPENSE		
Interest	19,172	
Consulting/covenant	57,500	
Loss on sale of assets	4,404	
Acquisition/start-up expense	7,044	(88,120)
Net income before taxes		79,334
Provision for Income taxes		(12,340)
Net Income		$ 66,994

See accountant's compilation report.

ARCHER, BULMAHN & CO.
CERTIFIED PUBLIC ACCOUNTANTS

ANGELES CHEMICAL CO., INC.
STATEMENT OF CHANGES IN FINANCIAL POSITION
(Unaudited)
YEAR ENDED APRIL 30, 1987

SOURCES OF WORKING CAPITAL		
Net income	$ 66,994	
Item not requiring working capital:		
Depreciation	156,892	
Working capital provided by operations	223,886	
OTHER SOURCES OF WORKING CAPITAL		
Increase in long term debt	75,888	
Sale of assets	8,696	
Increase in deposits	169	
Total sources of working capital		$ 308,639
USE OF WORKING CAPITAL		
Purchase of assets		521,630
Decrease in working capital		$ (212,991)

CHANGES IN WORKING CAPITAL - INCREASE OR (DECREASE)	
Cash	$ (681,596)
Accounts receivable	12,439
Inventories	197,012
Prepaid expenses	91,506
Accounts payable	509,020
Accrued expenses	(15,137)
Income taxes payable	(94,280)
Deposits	(38,667)
Note payable	(193,288
	$ (212,991)

See accountant's compilation report.

ARCHER, BULMAHN & CO.
CERTIFIED PUBLIC ACCOUNTANTS

APPENDIX II

QUALIFICATIONS OF MENKE & ASSOCIATES, INC.

John D. Menke

John Menke is a tax attorney and an experienced professional in the field of corporate finance.

Prior to founding Menke & Associates, Inc. in 1974, he was general counsel to Boothe Computer Investment Corporation, a venture capital firm. Prior to that, he was associated with the law firm of Kelso, Cotton, Seligman & Ray, where he practiced in the fields of corporate finance, tax planning, mergers and acquisitions, and deferred compensation.

Mr. Menke has authored over 20 articles regarding Employee Stock Ownership Plans, leveraged buyouts and estate planning techniques, as well as a leading book on Employee Stock Ownership Plans. Mr. Menke also assisted in drafting some of the legislation which codified Employee Stock Ownership Plans as a part of Federal law.

Menke & Associates, Inc. is one of the oldest and most active firms in the country in the design and administration of employee Stock Ownership Plans. Since its founding in 1974, Menke & Associates, Inc. has designed and installed Employee Stock Ownership Plans and leveraged buyouts for hundreds of public and private companies including several of the nation's largest privately held firms.

Mr. Menke received his B.A. degree from the University of Texas and his LL.B. degree from Yale Law School.

Eric M. Bramstedt

Eric Bramstedt has nearly 25 years experience in the field of financial analysis, equity evaluations, securities analysis and investment banking. He has prepared well over 100 business valuations on closely held companies for merger and acquisition, gift and estate taxes, Employee Stock Ownership Plans (ESOPs), incentive stock option plans and others. These valuations covered a broad industry scope of closely held and public companies including several Fortune 1000 listings. Mr. Bramstedt possesses in-depth knowledge of ESOP functions and valuations through seven years of extensive experience with two leading ESOP design and valuation firms -- Kelso & Co. and Houlihan, Lokey, Howard & Zukin.

Mr. Bramstedt holds a bachelors degree in Economics from Stanford University and is a Chartered Financial Analyst (CFA). His professional affiliations include membership in the Security Analysts of San Francisco, the Financial Analysts Federation, and the Valuation Roundtable of San Francisco.

Bryant J. Brooks

Bryant J. Brooks has an extensive background in corporate finance, venture capital, investment banking, and mergers and acquisitions. Mr. Brooks was President of Bay Equities, a venture capital firm, from 1972 to 1974. From 1968 to 1972, Mr. Brooks was President of Boothe Computer Investment Corporation, also a venture capital firm. Prior to that, Mr. Brooks was Vice President and Treasurer of Continental Capital Corporation, a publicly held Small Business Investment Company.

Since 1975, Mr. Brooks has prepared evaluation reports for a wide range of small and large companies. The clients represent a variety of manufacturing, distribution and service organizations -- including a number of high-technology companies.

During 1982, Mr. Brooks served for nine months as pre-term President of a publicly held savings and loan holding company.

Mr. Brooks also teaches graduate level finance courses at Golden Gate University in San Francisco.

Mr. Brooks was graduated Phi Beta Kappa from Yale University in 1950, receiving a B.A. degree in Economics. He received an M.B.A., with Distinction, from Harvard University in 1955.

Raymond G. Hogue

Raymond G. Hogue is an experienced financial analyst who has been a member of the business valuation staff of Menke & Associates since 1982. Mr. Hogue has a broad background in the analysis and valuation of various sizes and types of businesses. Prior to joining Menke & Associates, Inc., he served as the accounting and financial manager for a contract software development company.

Mr. Hogue graduated with honors from San Jose State University, receiving a B.S. degree in finance. In addition, he was chosen as the outstanding graduate of the San Jose State University School of Business.

Robert M. Ireland

Robert M. Ireland has an extensive background in securities valuation, corporate finance and venture capital. Prior to joining Menke & Associates, Mr. Ireland was a Vice President and General Partner of Kelso & Company, Inc., an investment banking firm which specializes in Employee Stock Ownership Plan (ESOP) financing techniques. Mr. Ireland is an experienced professional in securities valuation, in the financial design of Employee Stock Ownership Plans (ESOPs), and in the planning, design, structuring and implementation of leveraged buyouts.

Prior to his association with Menke & Associates and Kelso & Company, Mr. Ireland was a consultant to Transamerica Corporation and Memorex Corporation in the areas of corporate finance and capital markets during their computer industry antitrust litigation. From 1970 to 1974, Mr. Ireland was a Security Analyst at BA Investment Management Corporation, a subsidiary of Bank of America NT&SA. He is a member of the Financial Analysts Federation, the Security Analysts of San Francisco, and the American Management Association.

Mr. Ireland graduated from Stanford University with an A.B. in Economics in 1965. He received his M.B.A. in Finance from the University of California at Los Angeles in 1967, followed by two years of service in the U.S. Army as a Contracting Officer at the U.S. Army Electronics Command in Ft. Monmouth, New Jersey, and the Republic of Vietnam.

Everett A. Mathews

Everett A. Mathews graduated from the University of California, Berkeley, with a B.S. degree in Finance. Prior to 1971 he was employed as a commercial loan officer by Security Pacific National Bank in their San Francisco Main Office with responsibility for lending to businesses. Since 1971 he has specialized in financial analysis and the valuation of closely held businesses.

John L. Scripps

John Scripps has 20 years of extensive experience in corporate financial and general management as well as business valuation.

Following several years as a Systems Analyst in the Office of the Assistant Secretary of Defense for Systems Analysis in Washington, D.C., he rejoined the private sector where he has served for almost 18 years as the chief financial officer of three private companies. In that capacity, Mr. Scripps has directed the financial affairs of manufacturing and service companies ranging in size from a venture capital-financed "startup" to an established 85 year-old company producing annual sales approximating $100 million.

Subsequently, Mr. Scripps has specialized in the valuation of closely-held businesses. He has prepared business valuations for a wide range of companies in manufacturing, service, and distribution industries nationwide. He has prepared valuations for a number of purposes, including gift taxes, estate taxes, employee stock ownership plans, and for acquisitions and dispositions of controlling interests in companies.

Mr. Scripps holds an M.B.A. degree in Finance from the Stanford University Graduate School of Business Administration and a B.A. degree, also from Stanford University.

Donald J. Tubb

Donald J. Tubb has varied and extensive experience in general and financial management as well as in corporate finance and business valuation. Mr. Tubb is a retired Air Force officer with 22 years service as a pilot and operations/logistics manager. Subsequently, as a Vice President in the Wells Fargo Bank Corporate Finance Department, he performed stock valuations and assisted in corporate planning, mergers/acquisitions and private placements for bank customers. He has also served as CFO of a manufacturing company and formed his own consulting firm to provide valuation consulting and corporate planning services to corporate clients.

Mr. Tubb received an M.B.A. degree in Finance in 1973 from the University of California at Berkeley and a B.A. in 1955 from Oklahoma State University.

DRAFT

ANGELES CHEMICAL CO., INC.

BALANCE SHEET
UNAUDITED
APRIL 30, 1987

(ASSETS)

CURRENT ASSETS				
PETTY CASH		$ 300.00	(241)	
CASH IN BANK		(288,843.48)		
CASH IN BANK - BORTZ		42,493.72		
CASH IN MONEY MARKET		5,109.54		
P.A.R. FUND		443,242.17		
ACCOUNTS RECEIVABLE	$ 1,316,175.90			
ALLOW. FOR DOUBTFUL ACCTS.	(21,897.02)			

NET RECEIVABLES		1,294,278.88	1319	
ACCTS. REC. - STALLION		24,460.34		
ACCTS. REC. - OTHER		3,492.00		
EMPLOYEE ADVANCES		286.50	+	
INVENTORY - CHEMICALS		402,014.71	794	
INVENTORY - PACKAGING		65,106.22		
INVENTORY - PKG.-BORTZ		313,367.31		
INVENTORY - DRUMS		11,664.00		
INVENTORY - GASOLINE		2,157.13		
PREPAID PROPERTY TAXES		2,196.14	207	
PREPAID TANK TESTING		(3,533.40)		
PREPAID INSURANCE		126,195.02		
PREPAID INCOME TAXES		56,460.00		
PREPAID CONSULTANTS FEES		11,233.32		
PREPAID PACKAGING		14,098.26		

TOTAL CURRENT ASSETS				$ 2,525,778.35
FIXED ASSETS - AT COST				
OFFICE TRAILER	97,811.43	40, 1207		
TRUCKS & AUTOS	291,901.53			
TANKS & PLANT EQUIPMENT	655,080.22			
FURNITURE & FIXTURES	191,539.14	80		
CONSTRUCTION IN PROCESS	39,765.50			
PLANT	324,860.97			

TOTAL FIXED ASSETS		1,600,958.79		
LESS: ACCUMULATED DEPRECIATION		(868,311.70)		

NET FIXED ASSETS				732,647.09
				715
OTHER ASSETS				
DEPOSITS		4,119.00		
DEPOSITS - PALLETS		986.50		
DEPOSITS - DRUMS		2,838.25		
ACQUISITION DEPOSITS PAID		.00		

TOTAL OTHER ASSETS				7,943.75

TOTAL ASSETS				$ 3,266,369.20

SEE ACCOUNTANTS COMPILATION REPORT

ANGELES CHEMICAL CO., INC.

BALANCE SHEET
UNAUDITED
APRIL 30, 1987

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LIABILITIES AND CAPITAL

CURRENT LIABILITIES			
ACCOUNTS PAYABLE		$ 608,975.01	
ACCRUED PAYROLL		13,122.31	60
ACCRUED COMMISSIONS		47,022.42	
SALES TAX PAYABLE		7,139.29	7
INCOME TAXES PAYABLE		.00	
DRUM DEPOSITS		187,450.00	189
PALLET DEPOSITS		520.00	
CUSTOMER DEPOSITS		10,118.00	Other 18
EMPLOYEE BENEFIT & WELFARE		741.38	
NOTE PAYABLE - BORTZ OIL		193,288.44	
ACCRUED PROFIT SHARING		.00	
TOTAL CURRENT LIABILITIES			$ 1,068,376.85
LONG TERM LIABILITIES			
NOTE PAYABLE - BORTZ OIL		75,888.23	
TOTAL LONG TERM LIABILITIES			75,888.23
CAPITAL			
CAPITAL STOCK - $.10 PAR VALUE, 1,000,000 SHS. AUTHORIZED, 54,065 SHS. ISSUED & OUTSTANDING		5,406.50	
PAID IN CAPITAL		105,723.80	
RETAINED EARNINGS - BEGINNING	$ 2,248,154.07		
STOCK REDEEMED (5935)	(304,174.20)		
NET INCOME OR (LOSS)	66,993.97		
RETAINED EARNINGS		2,010,973.84	
TOTAL ~~CAPITAL~~ Equity			2,122,104.14
TOTAL LIABILITIES & CAPITAL			$ 3,266,369.22

SEE ACCOUNTANTS COMPILATION REPORT

BR001011

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ANGELES CHEMICAL CO., INC.

COMBINED
STATEMENT OF INCOME
UNAUDITED
YEAR ENDED APRIL 30, 1987

	CURRENT PERIOD	%	YEAR TO DATE	%
SALES	$ 2,619,206.69	100.0	$ 10,520,886.92	100.0
COST OF SALES	1,931,983.30	73.8	7,786,708.16	74.0
GROSS PROFIT	687,223.39	26.2	2,734,178.76	26.0
OPERATING EXPENSES			F85	
ADMINISTRATIVE SALARIES	120,600.00	4.6	202,475.00 F	1.9
PLANT WAGES	37,673.10	1.4	142,789.34	1.4
SALES WAGES	32,179.57	1.2	133,525.51	1.3
PACKAGING DEPARTMENT WAGES	72,484.16	2.8	182,924.17	1.7
OFFICE WAGES	26,469.17	1.0	101,144.62	1.0
PLANT EXPENSE	11,098.85	.4	30,348.57	.3
TRUCK EXPENSE	25,083.86	1.0	74,061.34	.7
AUTO & TRAVEL	7,360.06	.3	42,958.73	.4
SALESMEN EXPENSES	3,680.19	.1	9,157.97	.1
FREIGHT OUT	55,510.77	2.1	235,420.78	2.2
FREIGHT OUT-LAS	.00	.0	12,333.70	.1
DRUM MAINTENANCE	26,747.35	1.0	143,210.85	1.4
TANK TESTING EXPENSE	1,650.00	.1	6,510.00	.1
REPAIRS & MAINTENANCE	11,515.89	.4	32,171.51	.3
PRINTING PREP. EXPENSE	1,425.77	.1	4,384.80	.0
SUPPLIES	4,643.16	.2	33,083.99	.3
SUPPLIES-LAB	819.01	.0	1,160.12	.0
OUTSIDE LABOR	38,930.48	1.5	59,156.25	.6
EQUIPMENT RENTAL	(1,200.34)	.0	12,248.15	.1
RENT	33,000.00	1.3	112,000.00	1.1
OFFICE SUPPLIES	2,851.52	.1	22,090.22	.2
GENL. & ADMIN. EXPENSES	2,151.62	.1	12,468.61	.1
COMPUTER EXPENSE	1,892.59	.1	9,766.45	.1
PROFESSIONAL SERVICES	8,167.11	.3	34,166.02	.3
TAXES & LICENSES	5,890.07	.2	20,982.96	.2
PAYROLL TAXES	25,534.40	1.0	67,266.11	.6
BUSINESS PROMOTION	5,759.15	.2	33,976.40	.3
ADVERTISING	2,311.17	.1	10,128.09	.1
COMMISSIONS	82,418.37	3.1	82,418.37	.8
COMMISSIONS-LAS	.00	.0	139,089.53	1.3
COMMISSIONS-BORTZ	48,878.68	1.9	114,729.25	1.1
DIRECTORS FEES	2,250.00	.1	9,000.00	.1
DONATIONS	775.00	.0	1,080.32	.0
INSURANCE	25,786.60	1.0	127,770.13 3X	.2
WORKMENS COMP. INSURANCE	6,713.72	.3	15,861.96	.2
GROUP INSURANCE	13,487.06	.5	44,496.26	.4
DUES & SUBSCRIPTIONS	761.65	.0	5,388.65	.1

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SEE ACCOUNTANTS COMPILATION REPORT

BR001012

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ANGELES CHEMICAL CO., INC.
COMBINED
STATEMENT OF INCOME
UNAUDITED
YEAR ENDED APRIL 30, 1987

	CURRENT PERIOD	%	YEAR TO DATE	%
OPERATING EXPENSES-(CONT'D)				
UTILITIES	$ 3,050.95	.1	$ 14,693.74	.1
TELEPHONE	7,795.50	.3	26,305.04	.3
DEPRECIATION	32,951.59	1.3	156,891.50	1.5
MISCELLANEOUS	.00	.0	115.87	.0
EMPLOYEE MEDICAL BENEFITS	5,154.25	.2	21,044.29	.2
EMPLOYEE WELFARE	79.88	.0	1,516.88	.0
PENALTIES	.00	.0	26.78	.0
UNIFORM EXPENSE	3,091.98	.1	5,333.11	.1
BAD DEBTS	26,320.18	1.0	26,320.18	.3
PROFIT SHARING EXPENSE (Cash)	65,979.89	2.5	65,979.89	.6
TOTAL OPERATING EXPENSES	889,723.98	34.0	2,639,972.01	25.1
OPERATING INCOME OR (LOSS)	(202,500.59)	(7.7)	94,206.75	.9
OTHER INCOME				
DISCOUNTS EARNED	2,345.35	.1	6,508.57	.1
DEMURRAGE	587.50	.0	2,684.50	.0
INTEREST INCOME	61.13	.0	10,753.50	.1
DIVIDEND INCOME	6,695.92	.3	28,413.85	.3
MISCELLANEOUS INCOME	5,588.84	.2	24,886.84	.2
	15,278.74	.6	73,247.26	.7
OTHER EXPENSE				
INTEREST EXPENSE	7,039.08	.3	19,172.38	.2
CONSULTANT EXPENSE	14,375.01	.5	*57,500.01	.5
LOSS ON SALE OF ASSETS	5,204.15	.2	4,404.15	.0
ACQUISITION START-UP EXPENSE (Remodel, Moving, Rewire)	2,980.32	.1	7,043.50	.1
	29,598.56	1.1	88,120.04	.8
NET INCOME OR (LOSS) BEFORE TAXES	(216,820.41)	(8.3)	79,333.97	.8
PROVISION FOR TAXES	118,011.00	4.5	(12,340.00)	(.1)
NET INCOME OR (LOSS)	$(98,809.41)	(3.8)	$ 66,993.97	.6

SEE ACCOUNTANTS COMPILATION REPORT

ANGELES CHEMICAL CO., INC.
STATEMENT OF CHANGES IN FINANCIAL POSITION

DRAFT

UNAUDITED
YEAR ENDED APRIL 30, 1987

	CURRENT PERIOD	YEAR TO DATE
SOURCE OF FUNDS		
NET INCOME	$(98,809.41)	$ 66,993.97
ITEMS NOT REQUIRING WORKING CAPITAL:		
DEPRECIATION	33,418.06	157,357.97
OTHER SOURCES		
DRUM DEPOSITS	40.00	95.75
SALE OF ASSETS	8,229.68	8,229.68
INCREASE IN LONG-TERM DEBT	.00	162,583.21
TOTAL SOURCE OF FUNDS	(57,121.67)	395,260.58
APPLICATION OF FUNDS		
DECREASE IN LONG-TERM DEBT	43,670.97	86,694.98
PURCHASE OF ASSETS	20,358.93	521,630.20
INCREASE IN DEPOSITS	(4,356.12)	(73.50)
TOTAL APPLICATION OF FUNDS	59,673.78	608,251.68
INCREASE OR (DECREASE) IN WORKING CAPITAL	$(116,795.45)	$(212,991.10)
CHANGES IN WORKING CAPITAL- INCREASE OR (DECREASE)		
CASH	$(398,292.52)	$(681,595.74)
ACCOUNTS RECEIVABLE	66,908.00	12,277.34
EMPLOYEE ADVANCES	452.00	161.50
INVENTORIES	110,220.45	197,012.11
PREPAID EXPENSES	51,723.40	91,505.89
ACCOUNTS PAYABLE	73,429.12	509,020.44
ACCRUED PAYROLL	18,719.37	(18,776.01)
PAYROLL & SALES TAX PAYABLE	(49.28)	1,211.77
INCOME TAXES PAYABLE	36,071.00	(94,280.00)
DRUM DEPOSITS	(8,960.00)	(35,680.00)
CUSTOMER DEPOSITS	(1,457.00)	(2,987.00)
EMPLOYEE BENEFIT & WELFARE	(509.01)	(800.93)
LOANS PAYABLE	.00	(193,288.44)
ACCRUED PROFIT SHARING	(65,050.98)	3,227.97
INCREASE OR (DECREASE) IN WORKING CAPITAL	$(116,795.45)	$(212,991.10)

SEE ACCOUNTANTS COMPILATION REPORT

BR001014

Menke & Associates, Inc.
Corporate Financial Consultants

Livingston, New Jersey

111 Second Street
San Francisco, California 94105
(415) 543-3000

September 11, 1987

PERSONAL AND CONFIDENTIAL

Mr. James L. Froelich
Angeles Chemical Co., Inc.
P.O. Box 2163
Santa Fe Springs, California 90670

Dear Jim:

As discussed with you and John Locke today, Menke & Associates places a fair market value on the common equity ownership of Angeles Chemical Company of $2,122,104 or $39.25 a share based on 54,065 shares of Class A and B common stock outstanding. This valuation is for employee stock ownership plan (ESOP) purposes and is as of April 30, 1987.

The valuation is equivalent to the Company's stated book value as of that date and is employed in recognition of the fact that the Company's earnings are expected by management to recover from the depressed level of fiscal 1987. Over the longer term, Menke & Associates would use capitalization of earnings methodologies.

A complete report reviewing and discussing the various factors analyzed and considered to arrive at this fair market value is in the process of preparation and will be forwarded upon completion.

Very truly yours,

Eric M. Bramstedt

Eric M. Bramstedt

EMB:ew

Menke & Associates, Inc.
Corporate Financial Consultants

Livingston, New Jersey

111 Second Street
San Francisco, California 94105
(415) 543-3000

November 30, 1987

PERSONAL AND CONFIDENTIAL

Mr. James Froelich
Angeles Chemical Co. Inc.
P.O. Box 2163
Santa Fe Springs, California 90670

Dear Jim:

Enclosed is the Anchem ESOP valuation study and three photocopies. Also enclosed is our invoice.

Thank you for your help and cooperation in the preparation of this report.

Sincerely yours,

Eric

Eric M. Bramstedt

EMB:ew
enclosures

ORIGINAL NOTES TO
BE RETAINED BY
BORTZ

SECURED NEGOTIABLE PROMISSORY NOTE

$370,000.00

Los Angeles, California
October __, 1986

FOR VALUE RECEIVED, ANGELES CHEMICAL CO., a California corporation ("Purchaser") hereby promises to pay BORTZ OIL CO., INC., at 1746 North Spring Street, Los Angeles, California, 90012, Three Hundred Seventy Thousand Dollars ($370,000.00) including interest at nine percent (9%) per annum; principal and interest payable in equal monthly installments of $16,903.35 until paid in full; payments to commence on or before November 1, 1986 and on the first day of each month thereafter.

The payment of this Note is secured by a Security Agreement covering the equipment purchased from payee which will be located at the premises of the maker, 8915 Sorenson Avenue, Santa Fe Springs, California.

The unpaid principal amount of this Note, together with accrued interest thereon, and any other sums due or to become due hereunder shall, at the election of the holder hereof, mature and become immediately due and payable without presentment or demand for payment, dishonor, protest or notice of protest or other formality, all of which are hereby expressly waived, upon the happening of any one or more of the following events of default:

(a) If Purchaser shall fail to make full payment of any installment of the principal of, or interest on, this Note as and when specified herein;

(b) If Purchaser suffers to exist an involuntary lien on all or substantially all of its assets and such lien is not discharged or adequately bonded or secured within thirty (30) days from levy;

(c) If Purchaser suspends its business in contemplation of, or commences proceedings for, its dissolution or liquidation or makes a general assignment for the benefit of creditors or commences, or acquiesces in the commencement of, proceedings under any bankruptcy, insolvency, readjustment of debt or liquidation law or statute of the federal government or any state government or if Purchaser is adjudged bankrupt or insolvent under any law or statute or if Purchaser applies for, or any action indicates its approval of, consents to or acquiesces in, the appointment of a trustee or receiver for the whole or any substantial portion of its assets or if a trustee or receiver is appointed for the whole or any substantial portion of its assets.

Should any such event of default occur, Purchaser will pay all costs and expenses of collection, including reasonable attorneys' fees, incurred by the holder of this Note.

This Note shall be governed by the laws of the State of California. Principal and interest on this Note shall be payable in lawful money of the United States of America.

ANGELES CHEMICAL CO.

By____________________________

, President

SALES AGREEMENT

This agreement made on the date hereafter set forth, between Angeles Chemical Co., a California corporation, having its principal place of business at Santa Fe Springs, California, and hereafter referred to as Angeles, and Bortz Oil Co., Inc., having its principal place of business at Los Angeles, California, and hereafter referred to as Bortz.

I. APPOINTMENT: TERRITORY

1.1 Angeles hereby appoints Bortz as its exclusive representative for the sale of packaged goods, and existing products sold by Bortz, as of closing date, to the customers listed with the products shown in Schedule "A". Additional customers will be added to Schedule "A" by Angeles.

II. TERMS OF APPOINTMENT

2.1 The appointment hereby conferred shall be for three years, and may be renewed for another year on the same terms and conditions by mutual agreement.

III. TERMS OF SALE

3.1 All orders obtained by Bortz shall be at prices established by Angeles from time to time, and shall be subject to approval and acceptance by Angeles.

IV. COMMISSIONS

4.1 As compensation for its services consisting of obtaining orders for products subject to this agreement, and payment therefore, Bortz shall be entitled to a commission per Schedule "B".

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4.2 Commissions shall be payable on the tenth day of the month following the date of receipt of payment from customer. Angeles will furnish to Bortz copies of all invoices, credits, and debit memorandums as they are issued.

V. CREDIT APPROVAL

5.1 Angeles will control the authorization of credit, although recommendation of Bortz will be taken into consideration. Angeles, therefore, is responsible for any losses incurred and Bortz forfeits commissions on unpaid invoices. Bortz will extend reasonable cooperation and assistance in collecting past due accounts.

V. SALES PROMOTION MATERIAL

6.1 Angeles will furnish to Bortz, free of charge, printed promotional material including catalog papers, data sheets, copies of test reports, and samples of products to assist Bortz in the sale of products.

VII. STANDARD OF OPERATIONS: HOLD HARMLESS

7.1 During the term of this agreement, it is the intent of the parties that Bortz shall have the status, rights, and obligations of an independent contractor. Bortz accordingly agrees not to make any representations to the contrary.

7.2 Angeles hereby authorizes Bortz to sell products subject to this agreement in conformity with technical information and other descriptive materials supplied by Angeles to Bortz

SHB

7.2 Cont.

from time to time. Angeles agrees to save and hold Bortz harmless from product liability, or breach of warranty claims based solely on alleged defects in material or workmanship, or breach of express or implied warranties by Angeles.

7.3 Bortz agrees to refrain from making any representations or warranties respecting the characteristics, capabilities, or the performance of the products subject to this agreement, expect as authorizwd by Angeles. Bortz accordingly agrees to save and hold Angeles harmless from and against any claims or damages based on acts or omissions of Bortz.

7.4 During the term of this agreement and for so long as Bortz shall enjoy the exclusive sales rights herein provided, Bortz shall not sell or solict orders for any competetive products of any manufacturer, packagers, or others that compete in any way with the product covered by this agreement.

VII. MISCELLANEOUS:

8.1 The rights conferred upon Bortz hereby shall not be assignable without the express written consent of Angeles.

8.2 Any excuse by Angeles of breach or non-performance by Bortz of any of its obligations in this agreement, shall not be a waiver of Angeles's right thereafter to require performance by Bortz of this agreement.

8.3 This agreement shall be governed by and construed in accordance with the laws of the State of California.

8.4 Notices to be sent pursuant to the terms of this agreement shall be addressed as follows:

To: Angeles Chemical Co.
8915 Sorensen Ave.
Santa Fe Springs, CA 90670

To: Steve Bortz

IN WITNESS WHEREOF, the parties hereto have caused this agreement to be executed as of the 8-12-86

ANGELES CHEMICAL CO.

By John Locke
John Locke, President

STEVE BORTZ

By Steve Bortz
Steve Bortz

SHB J.G.L.

SCHEDULE "A"

CUSTOMER LIST

SCHEDULE "B"

COMMISSIONS

Commissions will be as follows:

Gross Margin	Commission
20%---25%	3%
26%---33%	5%
34%---over	7%

Gross margin percentage will be computed by dividing the gross margin by the sale price. Gross margin is the difference between the sale price and cost of goods sold. Cost of goods sold includes all product raw materials, containers, caps, labels, cartons, and packaging materials, but does not include packaging labor or transportation costs.

Exceptions to the established commission rates may be required to accomodate the requirements of a particular sale. The rate adjustment, when required, shall be established by separate negotiations between Angeles and Bortz at the time of the sale.

Exceptions would include sales which include free goods on promotional programs.

LETTER OF INTENT

PARTIES: Bortz Oil Co., Inc. — Seller
Angeles Chemical Co. — Purchaser

ASSETS TO SELL: Inventory and Supplies; Factory Equipment

PRICE TO BE PAID: Inventory and Supplies -- at sellers cost ________ *
List attached

Factory Equipment 370,000 JJL
List attached

Product tradenames and trademarks.
Bortz Oil Co., Inc.

TOTAL ________

METHOD OF PAYMENT: For Inventory and Supplies -- Cashier or certified check at Date of Closing;

For Factory Equipment -- Promissory Note payable in 24 equal monthly payments, plus interest at 9% per annum. Note to be secured by a Security Agreement on Factory Equipment.

SALES TAX ON EQUIPMENT SOLD: Payable by Purchaser

GOOD FAITH DEPOSIT BY PURCHASER: $10,000 - against Inventory Value.

CLOSING DATE: No later than September 30, 1986

*INVENTORY DATE: September 30, 1986, adjusted for sales and purchases according to closing date.

OCCUPANCY OF EXISTING BORTZ OIL CO. PREMISES:

Purchaser will remove purchased assets to its own facilities;

Seller will continue to occupy its existing premises;

Purchaser shall take over delivery of products sold by Seller.

BILL OF SALE: At Closing, Seller will deliver a Bill of Sale for assets sold, free and clear of any encumbrances.

EXCLUSIVE REPRESENTATION AGREEMENT:

Refer to sales agreement attached.

This letter of Intent summarizes the terms of the sale by Seller to Purchaser of the assets herein described at the price herein stated.

Dated: 8-12-, 1986

SELLER

BORTZ OIL CO., INC.

By: [signature]

PURCHASER

ANGELES CHEMICAL CO.

By: [signature]

EQUIPMENT LIST

FILL ROOM

Consolidated 2 head rotary capper
Biner Ellison 12 head rotary filler
Little David tape box closer

DECORATING

Tadem Dennison Therimage Line
Dennison Silk Screen Oven with conveyor (2)
Dennison Silk Screen Machine (7)
Acme Silver Stitcher box makers (2)
Vacuum table Screen maker
Hand stapler, Ink, Screens, Office Furniture
Molds for custom bottles - 4 qts PVC, 4 gal, 4 ½ gal, 4 pt and 4 qt.

PLANT

Steel Palitiers
Pallet Jack (2)
Forklift (Kamatsu)
Forklift (White MA40)
Forklift (White MY40)
Blackmer portible 1½hp pump
Biner Ellison In Line 6 head filler
Conveyors, hand stapler
Pallets 48 X 48 hardwood, 40 X 48 GMA
40 X 48 Reg 42 X 56 Can
Billygoat yard sweeper
American 20hp air compressor with air dryer

MODIFICATION TO LETTER OF INTENT

This Modification dated October 1, 1986, to Letter of Intent dated August 12, 1986, between BORTZ OIL CO., INC., as "Seller" and ANGELES CHEMICAL CO., as "Purchaser" provides as follows:

1. Accounts receivable as of Closing Date shall be retained and collected by Seller.

2. Customer deposits on drums shall be assumed by Purchaser, who shall be entitled to the drums when they are returned.

3. In consideration of Seller's agreement to hold Purchaser harmless from claims of creditors as a result of Seller's business transactions to the Closing Date Purchaser waives the provisions of the Bulk Sales Law.

DATED: October __, 1986

SELLER: BORTZ OIL CO., INC.

By______________________________
, President

PURCHASER: ANGELES CHEMICAL CO.

By______________________________
, President

DD02:BORTZ.3

Bortz Note

9% int rate

	A		B	C		D	E
	BORTZ EQUIPMENT PAYMENT SCHEDULE						
	BALANCE		PAYMENT	- PRINCIPAL		MO. INTEREST	INTEREST RAT
Sep 86	$370,000.00		$16,903.35	$14,128.35		$2,775.00	$0.01
	$355,871.65		$16,903.35	$14,234.31		$2,669.04	$0.01
	$341,637.34		$16,903.35	$14,341.07		$2,562.28	$0.01
	$327,296.27		$16,903.35	$14,448.63		$2,454.72	$0.01
	$312,847.64		$16,903.35	$14,556.99		$2,346.36	$0.01
	$298,290.65		$16,903.35	$14,666.17		$2,237.18	$0.01
	$283,624.48		$16,903.35	$14,776.17		$2,127.18	$0.01
	$268,848.31		$16,903.35	$14,886.99	241000	$2,016.36	$0.01
	$253,961.32		$16,903.35	$14,998.64		$1,904.71	$0.01
	$238,962.68		$16,903.35	$15,111.13		$1,792.22	$0.01
	$223,851.55		$16,903.35	$15,224.46	176711.56	$1,678.89	$0.01
Sept 87	$208,627.09	12	$16,903.35	$15,338.65		$1,564.70	$0.01
	$193,288.44	13	$16,903.35	$15,453.69		$1,449.66	$0.01
	$177,834.76	14	$16,903.35	$15,569.59		$1,333.76	$0.01
	$162,265.17	5	$16,903.35	$15,686.36		$1,216.99	$0.01
	$146,578.81	6	$16,903.35	$15,804.01		$1,099.34	$0.01
	$130,774.80	7	$16,903.35	$15,922.54	238000	$980.81	$0.01
	$114,852.26	8	$16,903.35	$16,041.96		$861.39	$0.01
	$98,810.30	9	$16,903.35	$16,162.27		$741.08	$0.01
	$82,648.03	20	$16,903.35	$16,283.49		$619.86	$0.01
	$66,364.54	1	$16,903.35	$16,405.62	193288.45	$497.73	$0.01
	$49,958.92	2	$16,903.35	$16,528.66		$374.69	$0.01
	$33,430.26	3	$16,903.35	$16,652.62		$250.73	$0.01
Sept/88	$16,777.64	4	$16,903.35	$16,777.64		$125.71	$0.01
	TOTAL PAID		$405,680.40	$370,000.00		$35,680.64	

EQUIPMENT LIST

OM

- Consolidated 2 head rotary capper 46,100
- Biner Ellison 12 head rotary filler 18,000
- Little David tape box closer 2,500

DECORATING

Tadem Dennison Therimage Line		115,000
Dennison Silk Screen Oven with conveyor	(2)	7,200
Dennison Silk Screen Machine	(7)	54,000
Acme Silver Stitcher box makers	(2)	2,000
Vacuum table Screen maker		3,500
Hand stapler, Ink, Screens, Office Furniture		200/1425/2050/325
Molds for custom bottles - 4 qts PVC, 4 gal, 4 ½ gal, 4 pt and 4 qt.		100,000

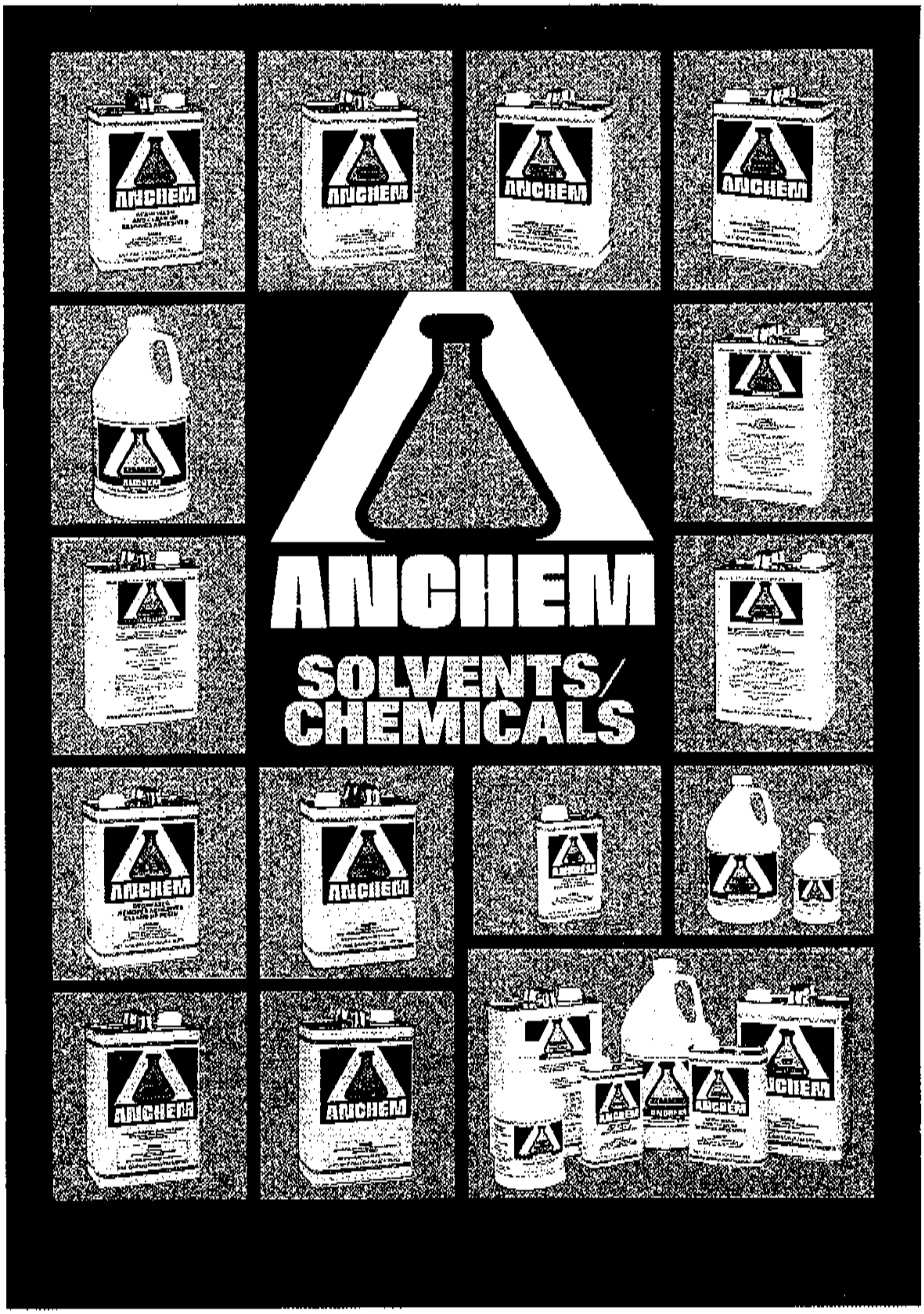
PLANT

Steel Palitiers		5,500
Pallet Jack	(2)	600
Forklift (Kamatsu)		7,000
Forklift (White MA40)		4,500
Forklift (White MY40)		5,500
- Blackmer portible 1½hp pump		1,000
- Biner Ellison In Line 6 head filler		3,000
- Conveyors, hand stapler.		800
Pallets 48 X 48 hardwood, 40 X 48 GMA 40 X 48 Reg 42 X 56 Can		6,800
Billygoat yard sweeper		1,000
American 20hp air compressor with air dryer		3,000

370,000

297,100 whse
77,900 SFS

BR001030



ANGELES CHEMICAL CO., INC.

8915 Sorensen Avenue, Santa Fe Springs, Calif. 90670
Phone (213) 945-3911 • (213) 685-4386 • (714) 521-7660

Thinners/Cleaners

PAINT THINNER

Anchem Paint Thinner (Mineral Spirits) is for thinning all types of oil-based paints, enamels and varnish. Use wherever paint thinner or mineral spirits is recommended by the paint manufacturer. Excellent for cleaning brushes, rollers and painting equipment after using oil-based paints.

SIZE	PK-WT
5 Gal.	1-35
Gal.	6-43
Qt.	12-23

Plastic Container

LACQUER THINNER

A medium-drying, general purpose lacquer thinner, formulated with a balanced blend of solvents to thin lacquers to sprayable viscosity. Cleans spray equipment and tools after use.

SIZE	PK-WT
5 Gal.	1-37
Gal.	6-47
Qt.	12-24
Pt.	12-14

ACETONE

A strong, fast-evaporating solvent having a variety of uses as a thinner, cleaner and remover for resins, epoxies, vinyls, lacquers and adhesives.

SIZE	PK-WT
5 Gal.	1-36
Gal.	6-45
Qt.	12-23
Pt.	12-13

METHYL ETHYL KETONE

A strong solvent, slower evaporation than Acetone, having a variety of uses as a thinner, cleaner and remover for resins, epoxies, vinyls, lacquers and adhesives.

SIZE	PK-WT
5 Gal.	1-37
Gal.	6-45
Qt.	12-23
Pt.	12-13

KEROSENE

Slow-drying, highly refined water-white product. Excellent cleaner or degreaser. A clean-burning fuel for Kerosene stoves and lanterns.

SIZE	PK-WT
5 Gal.	1-33
Gal.	6-43

Plastic Container

Thinners/Cleaners

SYNTHETIC REDUCER

A medium-drying thinner for use when thinning synthetic enamels for spray application. Excellent for cleaning spray equipment and tools after use.

SIZE	PK-WT
5 Gal.	1-35
Gal.	6-43
Qt.	12-23

SHELLAC THINNER

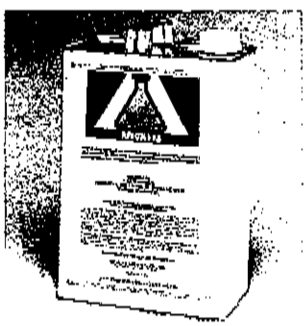
A general purpose denatured ethyl alcohol. Thins shellac, alcohol-soluble resins and inks. A clean-burning alcohol fuel.

SIZE	PK-WT
5 Gal.	1-36
Gal.	6-45
Qt.	12-23

VM&P — 66

A fast-drying solvent used in place of paint thinner to speed drying time of oil-base paints, enamel and varnish.

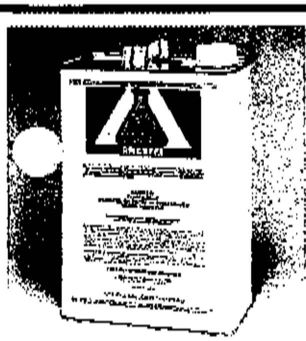
SIZE	PK-WT
5 Gal.	1-33
Gal.	6-42
Qt.	12-22



TOLUENE (Toluol)

A fast-drying solvent for thinning synthetic enamels, varnishes and adhesives where recommended by product manufacturer.

SIZE	PK-WT
5 Gal.	1-39
Gal.	6-48
Qt.	12-25



XYLENE (Xylol)

Has solvent characteristics similar to Toluene but is slower evaporating.

SIZE	PK-WT
5 Gal.	1-39
Gal.	6-48
Qt.	12-25

BR001033

Thinners/Cleaners

TURPENTINE (Pure Gum)

A high quality thinner for oil-base paints, varnishes and enamels. Pure Gum Turpentine is excellent for use by artists in thinning oil art-grade paints and finishes. Good as a clean-up solvent for brushes, rollers and equipment after use with oil-base paints.

SIZE	PK-WT
5 Gal.	1-38
Gal.	6-48
Qt.	12-25
Pt.	12-14

LINSEED OIL (Boiled)

Improves flow and allows easier brushing of oil-based paint. Produces a higher gloss and more durable paint film when added to oil-base exterior paints. Excellent as a wood shingle preservative.

SIZE	PK-WT
5 Gal.	1-41
Gal.	6-52
Qt.	12-26
Pt.	12-15

E-Z PREP, SURFACE DEGLOSSER

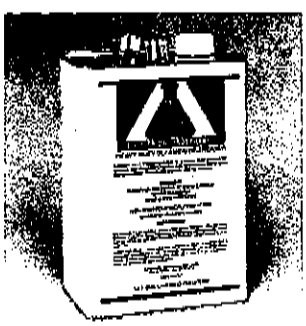
Prepares surfaces for faster and longer lasting repainting without sanding. Creates a "holding tack" in old painted or varnished surfaces to help new finishes bond to old.

SIZE	PK-WT
Gal.	6-45
Qt.	12-24
Pt.	12-13

BRUSH & ROLLER CLEANER

A fast-acting product that effectively cleans hard or soft brushes and rollers used with oil or latex paints. Water-rinsable.

SIZE	PK-WT
Qt.	12-34
Pt.	12-18



1-1-1 TRICHLOROETHANE

Is a heavy duty cleaner/degreaser. Excellent for cleaning and degreasing metal parts and equipment. Evaporates quickly with no residue.

SIZE	PK-WT
5 Gal.	1-55
Gal.	6-66

ANCHEM

SOLVENTS & CHEMICALS

ANGELES CHEMICAL CO., INC.

8915 Sorensen Avenue, Santa Fe Springs, Calif. 90670

Phone (213) 945-3911 • (213) 685-4386 • (714) 521-7660

ALIPHATIC HYDROCARBONS		API Grav. @ 60°F	Spec Grav @ 60°F	Lbs. Per Gal.	IBP °F	50% °F	Dry Pt. °F	Flash Point °F TCC	Kauri Butanol Value	Aniline Pt. °F	Evap Rate N.B. Acet. = 1.0	[illegible] Benzene [illegible] Toluene	[illegible]
Anchem N-Hexane, 5°	*	79.0	.6722	5.60	150	151	154	<40°F	28	151	9.0	–	–
Anchem Mixed Hexanes	*	79.6	.6701	5.58	137	147	175	<40	29	149	8.0	–	–
Anchem Mixed Hexanes LR	*	62.0	.7313	6.087	170	194	216	<40	39	122	7.3	4.7	–
Anchem Lacquer Diluent	*	58.4	.7451	6.203	200	204	215	<40	43	115	4.0	10.0	–
Anchem LD 250	*	56.4	.7531	6.269	202	210	252	<40	39	120	3.2	6.0	0.3
Anchem Lacquer Diluent LR	*	56.3	.7535	6.273	206	228	275	<40	41	117	3.4	4.5	3.0
Anchem VM&P 66	*	56.3	.7540	6.279	252	260	282	60	39	128	1.5	1.1	6.0
Anchem 298 Thinner	*	51.0	.7751	6.45	275	310	360	77	37	134	0.37	1.5	6.3
Anchem LEP Solvent	*	49.8	.7805	6.49	312	327	360	102	35	147	0.26	–	2.0
Anchem Mineral Spirits 66	*	48.0	.7883	6.56	310	342	385	105	35	146	0.22	–	2.0
Anchem Sol 70	*	57.9	.7470	6.22	321	329	344	104	27	180	0.18	–	0.4
Anchem Odorless Mineral Spirits	*	54.2	.7620	6.344	363	370	390	136	27	184	0.12		
Anchem 140 Solvent	*	45.1	.8012	6.67	365	380	410	142	35	149	0.11	–	2.0
Anchem Deo Base "C"	*	45.0	.8017	6.67	370	398	490	142	30	160	0.08	–	1.0
Anchem 450 Kerosene	*	44.2	.8054	6.705	355	402	495	146	32	157	0.08	–	1.5

*Non-Photochemically Reactive under SCAQMD Rule 102

AROMATIC SOLVENTS	API Grav. @ 60°F	Spec Grav. @ 60°F	Lbs. Per Gal.	IBP °F	50% °F	Dry Pt. °F	Flash Point °F TCC	Kauri Butanol Value	Aniline Cloud Pt. °F (Mixed)	Evap Rate N.B. Acet. = 1.0	Eth. Benzene % Vol Toluene	[illegible] Benzene
Anchem Toluene	31.0	.8710	7.25	230	231	232	40	105	51	2.2	100	–
Anchem T-1-81	37.6	.8368	6.967	218	238	279	<40	85	76	1.6	53	23
Anchem Xylene	31.0	.8708	7.251	282	284	286	82	98	53	0.7	4	96
Anchem Ethyl Benzene	30.9	.8713	7.255	276	277	280	75	92	50	1.0	99	–
Anchem X-B	33.5	.8576	7.141	268	276	281	77	90	65	0.7	3.7	85.3
Anchem X-2-92	33.0	.8602	7.162	278	288	331	88	92	57	0.5	13	82
Anchem PX 28/65	34.1	.8550	7.12	310	323	360	110	78	79	0.20	–	76.5
Anchem PX-2	30.5	.8730	7.27	321	326	343	112	92	57	0.28	–	99.7
Anchem PX-3	28.0	.8870	7.39	358	370	408	142	89	63	<0.1	–	97.5

EXEMPT AROMATIC ALTERNATES	API Grav. @ 60°F	Spec Grav. @ 60°F	Lbs. Per Gal.	IBP °F	50% °F	Dry Pt. °F	Flash Point °F TCC	Evap Rate N.B. Acet. = 1.0	Eth. Benzene % Vol Toluene	[illegible] Above Exempt [illegible] Benzene
Anchem ET-110	43.2	.8100	6.744	172	206	250	<40	2.8	19	--
Anchem EX-120	49.1	.7840	6.52	214	243	300	67	0.9	6	3.5
Anchem EG-130	40.6	.8220	6.85	294	381	415	133	0.08	–	5.5
Anchem ETB-66	46.3	.7958	6.626	190	199	244	<40	2.4	4.6	–
Anchem EXB-66	44.1	.8058	6.709	220	233	280	57	1.4	1.3	5.0
Anchem ETI-66	45.9	.7976	6.641	170	200	246	<40	2.9	4.5	–
Anchem TF-66	43.1	.8096	6.74	215	219	228	45	2.8	19	–
Anchem CH-66	50.1	.7792	6.49	154	182	237	<40	3.5	19.6	–

ESTERS	Spec. Gravity @ 20/20°C	Lbs. per Gal. @ 20°C	Dist. Range 760mm HG °F	Evap. Rate N.B. Acet.=1.0	Flash Point °F TCC	Dilution Ratio Toluene	Aliphatic Naphtha
Primary Amyl Acetate	0.876	7.29	275-302	0.38	96	2.3	1.4
Normal Butyl Acetate	0.883	7.34	244-262	1.00	82	2.7	1.4
"Cellosolve"[1] Acetate	0.975	8.10	313	0.17	126	2.5	0.9
Ethyl Acetate 85/88%	0.883	7.38	160-174	3.98	24	3.3	1.3
Ethyl Acetate 99%	0.902	7.51	169-172	3.91	22	3.1	1.1
Isobutyl Acetate	0.873	7.24	230-246	1.50	68	2.2	1.1
Isopropyl Acetate	0.874	7.26	185-194	3.42	40	2.8	1.3
Normal Propyl Acetate	0.888	7.39	203-217	2.08	58	3.2	1.5
Butyl "Cellosolve"[1] Acetate	0.942	7.84	378	0.03	165	1.8	1.2
"Carbitol"[1] Acetate	1.011	8.41	423	<0.01	222	2.2	0.6
Butyl "Carbitol"[1] Acetate	0.981	8.16	476	<0.01	230	1.8	0.9
Methyl "Cellosolve"[1] Acetate	1.007	8.37	293	0.31	123	2.3	0.6

ETHERS	Spec. Gravity @ 20/20°C	Lbs. per Gal. @ 20°C	Dist. Range 760mm HG °F	Evap. Rate N.B. Acet.=1.0	Flash Point °F TCC	Dilution Ratio Toluene	Aliphatic Naphtha
1-4 Dioxane	1.036	8.62	214	3.1	60	–	–
Ethyl Ether	0.715	5.96	94	8.2	<0	–	–
Propylene Oxide	0.8304	6.92	94	33.7	<0	–	–
Tetrahydrofuran	0.884	7.35	151	4.7	6	2.9	1.1

GLYCOL ETHERS							
Butyl "Carbitol"[1] Diethylene Glycol Butyl Ether	0.954	7.95	441-453	<0.01	220	3.9	1.9
Butyl "Cellosolve"[1] Ethylene Glycol Butyl Ether	0.902	7.51	336-343	0.07	138	3.3	1.8
"Carbitol"[1] Solvent Diethylene Glycol Ethyl Ether	1.027	8.55	374-401	0.01	201	2.0	Immis.
"Cellosolve"[1] Solvent Ethylene Glycol Ethyl Ether	0.931	7.75	273-277	0.38	110	4.9	1.1
Methyl "Carbitol"[1] Diethylene Glycol Methyl Ether	1.021	8.50	378-385	0.02	189	2.3	Immis.
Methyl "Cellosolve"[1] Ethylene Glycol Methyl Ether	0.965	8.04	253-257	0.52	102	3.4	0.2

GLYCOLS	Spec. Gravity @ 20/20°C	Lbs. per Gal @ 20°C	Dist. Range 760mm HG °F	Evap. Rate N.B. Acat = 1.0	Flash Point °F TCC	Dilution Ratio — Toluene	Dilution Ratio — Aliphatic Naphtha
Diethylene Glycol	1.118	9.31	450-491	<0.001	300	—	—
Dipropylene Glycol	1.024	8.52	432-450	<.0008	265	—	—
Ethylene Glycol	1.116	9.31	379-401	<0.01	250	—	—
Hexylene Glycol	0.922	7.69	379-392	<0.01	211	—	—
Propylene Glycol, Ind.	1.038	8.63	365-374	0.01	210	—	—
Propylene Glycol, USP	1.038	8.63	365-374	0.01	210	—	—
"UCAR"[1] Thermofluid 17	1.130	9.40	356	—	260°COC	—	—

KETONES							
Acetone	0.791	6.59	132-135	5.59	-15	4.4	0.8
Cyclohexanone	0.948	7.90	308-321	0.29	111	5.8	1.3
Diacetone Alcohol	0.940	7.83	275-342	0.12	126	2.3	0.6
Diisobutyl Ketone	0.808	6.72	325-343	0.19	140	1.5	0.8
Isophorone	0.923	7.68	401-428	0.02	184	6.2	1.2
Methyl Ethyl Ketone	0.806	6.71	174-176	3.79	23	4.3	0.9
Methyl Isobutyl Ketone	0.802	6.67	237-243	1.62	60	3.6	1.0
Methyl Amyl Ketone	0.817	6.80	300-304	0.33	108	3.9	1.2

POLYETHYLENE GLYCOLS — "CARBOWAX"[1]	Spec. Gravity @ 20/20°C	Lbs. per Gal @ 20°C	H_2O Solubility @ 20°C % By Wt.	Visc. Centistokes @ 210°F
"Carbowax"[1] 200	1.13	9.38	Complete	4.3
"Carbowax"[1] 300	1.13	9.38	Complete	5.8
"Carbowax"[1] 400	1.13	9.38	Complete	7.3
"Carbowax"[1] 600	1.12	9.40	Complete	10.5
"Carbowax"[1] PEG 3350 Flake	1.204	–	62	75-110

PLASTICIZERS	Spec. Gravity @ 25/25°C	Lbs. per Gal @ 25°C	Dist. Range @ 760mm HG °F	Flash Point COC °F
Dibutyl Phthalate	1.046	8.72	644	340
Dioctyl Phthalate	0.982	8.21	727	425
Dimethyl Phthalate	1.190	9.92	539	300

ALKANOLAMINES – AMINES				
Diethanolamine	1.092	9.09	515, Decomposes	280
Monoethanolamine	1.018	8.47	339	200
Triethanolamine 85%	1.126	9.37	636, Decomposes	355
Diethyl Amine	0.708	5.88	132	<0
Triethylamine	0.729	6.06	193	17

ALCOHOLS	Spec. Gravity @ 20/20°C	Lbs. per Gal @ 20°C	Dist. Range 760mm HG °F	Evap. Rate N.B. Acet = 1.0	Flash Point °F TCC	Dilution Ratio Toluene	Dilution Ratio Aliphatic Naphtha
Primary Amyl Alcohol	0.813	6.79	261-279	0.3	113	Cosolvent for Nitrocell	
Normal Butanol	0.811	6.75	241-246	0.43	98	Cosolvent for Nitrocell	
Secondary Butanol	0.808	6.73	208-214	0.81	72	Cosolvent for Nitrocell	
2-Ethyl Hexanol (Octanol)	0.834	6.94	364	0.02	164	Cosolvent for Nitrocell	
Isobutanol	0.803	6.69	223-239	0.62	86	Cosolvent for Nitrocell	
Isopropanol, Anhydrous	0.786	6.55	179-181	1.44	53	Cosolvent for Nitrocell	
Methanol	0.792	6.60	147-149	2.07	51	2.2	0.5
Methyl Amyl Alcohol (Methyl Isobutyl Carbinol)	0.808	6.73	266-271	0.27	103	Cosolvent for Nitrocell	
Normal Propanol	0.815	6.70	204-208	0.86	77	Cosolvent for Nitrocell	
ETHANOLS							
Ethanol, Proprietary	0.8038	6.69	173	1.6	53	Cosolvent for Nitrocell	
Ethanol, Special Industrial Solvent	0.806	6.71	172	1.4	61	Cosolvent for Nitrocell	

CHLORINATED HYDROCARBONS	Spec. Gravity @ 25/25°C	Lbs. per Gal @ 25°C	Dist. Range 760mm HG °F	Evap. Rate N.B. Acet = 1.0	Flash Point °F TCC
Methylene Chloride	1.320	10.98	103-104	14.5	—
Monochlorobenzene	1.105	9.19	267-270	1.07	95
Orthodichlorobenzene 85%	1.303	10.84	355-362	0.15	145
Perchlorethylene	1.618	13.46	250-254	2.10	—
Trichlorethylene	1.459	12.14	188-190	4.46	—
1,1,1,-Trichlorethane	1.319	10.97	162-190	6.00	—

ANGELES CHEMICAL CO., INC.

8915 Sorensen Avenue, Santa Fe Springs, Calif. 90670

Phone (213) 945-3911 • (213) 685-4386 • (714) 521-7660

SURFACTANTS (NONIONIC)	Spec. Gravity @ 20/20°C	Lbs. per Gal. @ 20°C	Cloud Point (1% Aqueous Solution °C)	Flash Point COC °F	Moles Ethylene Oxide
"Tergitol"[1] NP-7 (Nonyl Phenol)	1.055	8.71	20(A)	525 TCC	7
"Tergitol"[1] NP-9 (Nonyl Phenol)	1.057	8.80	54(A)	540 TCC	9
"Tergitol"[1] NP-10 (Nonyl Phenol)	1.062	8.84	63 (A)	500 TCC	10.5
"Tergitol"[1] 25-L-7 (Primary Alcohol)	0.985 (30/20)	8.19 @ 30°C	50	352 TCC	7
"Tergitol"[1] 25-L-9 (Primary Alcohol)	0.991 (30/20)	8.18 @ 40°C	60	356 TCC	9
"Tergitol"[1] 15-S-7 (Linear Alcohol)	0.994	8.26	37	440	7
"Tergitol"[1] 15-S-9 (Linear Alcohol)	1.006	8.37	60	470	9
"Tergitol"[1] 15-S-12 (Linear Alcohol)	1.023	8.49	90	460	12

(A) 0.5% Aqueous Solution

CHEMICALS – MISCELLANEOUS	Spec. Gravity @ 20/20°C	Lbs. per Gal. @ 20°C	Dist. Range @ 760mm HG °F	Flash Point TCC °F	Evap. Rate N.B. Acet = 1.0
NiPar S-30[3]	0.992	8.24	246-252	91	1.10
Dimethyl Formamide	0.945	7.87	304-308	136	0.20
Styrene Monomer	0.908	7.55	293	93	–

[1] Trademark – Union Carbide Corporation [2] Trademark – Shell Chemical Co. [3] Trademark – IMC Chem. Group, Inc.

The information contained herein is correct to the best of our knowledge. The information, data and suggestions contained in this bulletin are made without guarantee or representation as to results. We suggest that you evaluate these recommendations and suggestions in your own laboratory prior to use. Our responsibility for claims arising from breach of warranty, negligence, or otherwise is limited to the purchase price of the material.

Menke & Associates, Inc.
Corporate Financial Consultants

111 Second Street
San Francisco, California 94105
(415) 543-3000

Livingston, New Jersey

Los Angeles, California

September 22, 1987

Angeles Chemical Co.
P. O. Box 2163
Santa Fe Springs, CA 90670

INVOICE

Travel expenses incurred by Eric M. Bramstedt on 8/11/87 in connection with Angeles Chemical Co. Valuation:

Airfare	$150.00
Car	53.61
Other	17.24
TOTAL AMOUNT DUE . . .	$220.85

Cancelled per
Larry Lyon

№ 2830

BR001041

Incorporated under the Laws of the State of California

NUMBER [redacted]

SHARES [redacted]

ANGELES CHEMICAL CO., INC.

Authorized: 1,000,000 Shares

500,000 Class A Voting Common Shares
Par Value $10.00

500,000 Class B Non-Voting Common Shares
Par Value $10.00

THIS CERTIFIES THAT Angeles Chemical Company, Inc. Employee Stock Ownership Trust IS THE REGISTERED HOLDER OF Eleven thousand eight hundred sixty-seven ****************************** Class B Non-Voting Common Shares of

ANGELES CHEMICAL CO. INC.

HEREINAFTER DESIGNATED "THE CORPORATION," TRANSFERABLE ON THE SHARE REGISTER OF THE CORPORATION UPON SURRENDER OF THIS CERTIFICATE PROPERLY ENDORSED OR ASSIGNED.

WITNESS, THE SEAL OF THE CORPORATION AND THE SIGNATURES OF ITS DULY AUTHORIZED OFFICERS.

DATED: July 31, 1984

Robert O. Berg, SECRETARY

John G. Locke, PRESIDENT

RECORDED

637921

FILED
In the office of the Secretary of State
of the State of California

NOV 1 1971

EDMUND G. BROWN, Jr., Secretary of State
By [signature]
Deputy

Restriction of right to amend articles
No
Yes

Document, Filed
Los Angeles County
Nov. 5, 1971
Office of County Clerk
Corporation Div.

ARTICLES OF INCORPORATION
OF
ANGELES CHEMICAL CO., INC.

KNOW ALL MEN BY THESE PRESENTS:

That we, the undersigned, have this day voluntarily associated ourselves together for the purpose of forming a corporation, and we do hereby certify:

ARTICLE I

The name of this corporation shall be:

ANGELES CHEMICAL CO., INC.

ARTICLE II

The specific business in which this corporation proposes primarily to engage is in the purchase and sale of petroleum solvents, petroleum products and chemicals of all types and descriptions.

ARTICLE III

The general purposes for which this corporation is formed are:

1. To buy, acquire, transport, produce, sell and otherwise dispose of and deal and trade in petroleum solvents and products, and petroleum of all grades, oil, sulphur, gas, carbon black, asphalt, bitumen and bituminous

279464

located is Los Angeles.

ARTICLE V

The numbers of directors of the corporation is three (3).

ARTICLE VI

The names and addresses of the persons who are appointed as the first directors of this corporation are as follows:

JOHN G. LOCKE	3440 Wilshire Boulevard, Ste. 1017 Los Angeles, California 90010
ARNOLD ROSENTHAL	3440 Wilshire Boulevard, Ste. 1017 Los Angeles, California 90010
D.M. JAMES	3440 Wilshire Boulevard, Ste. 1017 Los Angeles, California 90010

ARTICLE VII

The total number of shares which the corporation is authorized to issue is 2,500 shares. The aggregate par value of said shares is $25,000.00, and the par value of each share is $10.00. No distinction shall exist between the shares of the corporation or the holders thereof.

ARTICLE VIII

(a) Each shareholder of the corporation shall be entitled to full pre-emption or preferential rights, as such rights are defined by law, to subscribe for or purchase his proportional part of any shares which may be issued at any time by this corporation.

(b) Before there can be a valid sale or transfer of any of the shares of this corporation by the holders thereof, the holder of the shares to be sold or transferred shall first give notice in writing to the secretary of this corporation of his intention to sell or transfer such shares. Said notice shall specify the number of shares to be sold or transferred, the price per share, and the terms upon which such holder intends to make such sale or transfer. The secretary shall, within five (5) days thereafter, mail or deliver a copy of said notice to each of the other shareholders of record of this corporation. Such notice may be delivered to such shareholders personally or may be mailed to the last known addresses of such shareholders, as the same may appear on the books of this corporation. Within fifteen (15) days after the mailing or delivering of said notices to such shareholders, any such shareholder or shareholders desiring to acquire any part or all of the shares referred to in said notice shall deliver by mail or otherwise to the secretary of this corporation a written offer or offers, expressed to be acceptable immediately, to purchase a specified number or numbers of such shares at the price and upon the terms stated in said notice, accompanied by the purchase price therefor with authorization to pay such purchase price against delivery of such shares.

If the total number of shares specified in such offers exceeds the number of shares referred to in said notice, each offering shareholder shall be entitled to purchase such proportion of the shares referred to in said notice to the secretary, as the number of shares of this corporation, which he holds, bears to the total number of shares held by all such shareholders desiring to purchase the shares referred to in said notice to the secretary.

If all of the shares referred to in said notice to the secretary are not disposed of under such apportionment, each shareholder desiring to purchase shares in a number in excess of his proportionate share, as provided above, shall be entitled to purchase such proportion of those shares which remain thus undisposed of, as the total number of shares which he holds bears to the total number of shares held by all of the shareholders desiring to purchase shares in excess of those to which they are entitled under such apportionment.

If one or more of the other shareholders offers to purchase, in the aggregate, within said fifteen (15) day period, less than all of the shares referred to in said notice to the secretary, the shareholder desiring to sell or transfer shall not be obligated to accept any such offer or offers from one or more of the other shareholders and may dispose of all of the shares of stock referred to in said notice, to any person or persons whomsoever; provided, however, that he shall not sell or transfer such shares at a lower price or on terms more favorable to the purchaser or transferee than those specified in said notice to the secretary.

Any sale or transfer, or purported sale or transfer, of the shares of said corporation shall be null and void unless the terms, conditions and provisions of this Article VIII (b).

IN WITNESS WHEREOF, for the purpose of forming this corporation under the laws of the State of California, we, the undersigned, constituting the incorporators of this corporation and including all of the persons named herein as first directors, have executed these Articles of Incorporation this 20th day of October, 1971.

John G. Locke

John G. Locke

Arnold Rosenthal

Arnold Rosenthal

D. M. James

D.M. James

STATE OF CALIFORNIA)
COUNTY OF LOS ANGELES) ss.

On this 20th day of October, 1971, before me, MARION L. MARSHALL, a Notary Public in and for the County of Los Angeles, State of California, residing therein, duly commissioned and sworn, personally appeared JOHN G. LOCKE, ARNOLD ROSENTHAL and D.M. JAMES, known to me to be the persons whose names are subscribed to the foregoing Articles of Incorporation of ANGELES CHEMICAL, INC., and acknowledged to me that they executed the same.

WITNESS MY HAND AND OFFICIAL SEAL.

Marion L. Marshall
Marion L. Marshall

OFFICIAL SEAL
MARION L. MARSHALL
NOTARY PUBLIC CALIFORNIA
PRINCIPAL OFFICE IN
LOS ANGELES COUNTY
My Commission Expires Oct. 20, 1972

Our fee for this initial stock appraisal shall be $4,000.

ANNUAL STOCK APPRAISAL

Menke & Associates, Inc. shall provide an updated appraisal of the fair market value of the capital stock of the Company as of each fiscal year end. This appraisal shall be based upon the guidelines established by the initial appraisal and shall reflect the financial and operating results that have occurred during the ensuing fiscal years.

The fee for annual stock appraisals shall be $2,000 per year, based on 1987 dollars.

We hope the foregoing fully describes our services and fee arrangements. If you have any questions, please give us a call.

Sincerely,

Menke & Associates, Inc.

Laurence G. Lyon
Vice President

LGL/js

ACKNOWLEDGEMENT: To acknowledge acceptance of this proposal, please sign below and send your check for one-half the fee, or $2,000.

DATE: June 19, 1987 BY: John G. Locke, President

Officer Name: John G. Locke

Company Name: Angeles Chemical Co.,Inc.

1	Comparison of					
2		Year Ending	Year Ending	Year Ending	Year Ending	Year Ending
3						
4	Income Statement	April 30,1983	APRIL 30,1984	April 30, 1985	April 30,1986	April 30, 1987
5						
6	Sales	$15,023,895.00	$14,455,259.00	$13,292,716.00	$12,128,721.00	$10,524,097.00
7						
8	Cost of Sales	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
9						
10	Gross Margin	$1,979,445.00	$2,058,051.00	$2,187,893.00	$2,219,257.00	$2,739,676.00
11						
12						
13						
14						
15	Oper. Expenses					
16						
17	Inventory Loss					$21,619.00
18	Adm. Salries	$302,483.00	$304,113.00	$204,400.00	$207,593.00	$202,475.00
19	Plant Wages	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
20	Packaging Wages					$182,824.00
21	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
22	Office Wages	$102,943.00	$98,847.00	$82,924.00	$91,280.00	$101,145.00
23	Plant Expense	$8,858.00	$11,304.00	$10,960.00	$14,563.00	$30,349.00
24	Lab Expense		$60.00		$297.00	$5,333.00
25	Truck Expense	[illegible]	[illegible]	[illegible]	[illegible]	$74,278.00
26	Auto & Travel	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
27	Sales Expense	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
28	Frt.out Angeles	$202,647.00	$204,166.00	$189,338.00	$193,215.00	$235,421.00
29	Frt.out LAS	$45,291.00	$46,413.00	$37,985.00	$21,600.00	$12,334.00
30	Drum Maintenance	$46,829.00	$114,170.00	$127,002.00	$126,818.00	$143,211.00
31	Tank [illegible]				[illegible]	[illegible]
32	Repairs & Maint.	[illegible]	[illegible]	[illegible]	$17,627.00	$32,172.00
33	Printing Prep Exp				[illegible]	[illegible]
34	Supplies	$9,600.00	$6,722.00	$15,964.00	$19,453.00	$34,124.00
35	supplies-lab		$630.00	$1,137.00	$1,013.00	$1,160.00
36	Outside Labor	$5,870.00	$6,886.00	$18,930.00	$16,423.00	$59,156.00
37	Equipment Rental		[illegible]		[illegible]	$12,248.00
38	Rent	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
39	Office Supplies	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
40	Genl & Adm Exp	$5,012.00	$13,892.00	$14,571.00	$16,856.00	$12,468.00
41	Computer Expense	$37,689.00	$37,679.00	$20,576.00	$8,942.00	$5,766.00
42	Prof. Expense	$14,208.00	$28,770.00	$36,892.00	$43,500.00	$33,256.00
43	Taxes & Licenses	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
44	Payroll Taxes	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
45	Business Prom.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
46	Advertising	$17,390.00	$11,435.00	$7,808.00	$8,997.00	$10,128.00
47	Commissions	$88,576.00	$76,060.00	$101,000.00	$78,168.00	$82,418.00
48	Commissions-LAS	$118,878.00	$135,862.00	$150,193.00	$164,961.00	$253,819.00
49	Directors Fees	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
50	Donations	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
51	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
52	Stallion Ins.Pd					
53	Workers Comp. Ins	$3,282.00	$3,169.00	$6,734.00	$6,760.00	$17,062.00
54	Group Insurance	$15,157.00	$23,903.00	$30,904.00	$28,983.00	$44,486.00
55	Officer Life Ins					
56	Dues & Subscrpt	$2,752.00	$3,423.00	$2,649.00	$6,912.00	$5,389.00

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55 Officer Life Ins					
56 Dues & Subscrpt	$2,752.00	$3,823.00	$2,849.00	$5,912.00	$5,389.00
57 Utilities	$6,821.00	$7,361.00	$8,564.00	$9,237.00	$14,694.00
58 Telephone	$24,670.00	$24,828.00	$29,388.00	$31,756.00	$26,225.00
59 Depreciation	$96,892.00	$98,800.00	$95,438.00	$105,487.00	$153,246.00
60 Misc Expenses	[illegible]	[illegible]	$450.00	$149.00	$116.00
61–63 [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
64 Penalties		$375.00		$765.00	$27.00
65 Bad Debts	$6,234.00				$25,320.00
66 Profit Sharing	$99,755.00	$82,829.00	$92,804.00	$81,800.00	
67–69 [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
70					
71 Operating Income	$131,213.00	$110,026.00	$230,544.00	$82,794.00	$132,210.00
72–75 [illegible]					
76 Purchase Disct.	$99.00	$112.00	$2,019.00	$2,731.00	$6,609.00
77 Drums Incl/Sld.					$2,685.00
78 Demrg Chg to Cust	$4,399.00	$4,514.00	$3,385.00	$4,712.00	
79–81 [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
82 Leasing Income			$35,865.00		$21,483.00
83 Labor Reimburs.					
84 Misc. Income	$158,361.00	$86,325.00		$121,515.00	$3,404.00
85–87 [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
88 Total	$228,494.00	$162,908.00	$224,304.00	$179,897.00	$74,049.00
89					
90					
91–93 [illegible]	[illegible]	[illegible]	[illegible]		[illegible]
94 Consultant Expense			$28,750.00	$47,917.00	$67,500.00
95 Start-up Expense					$7,044.00
96 Total	$464.00	$7,154.00	$41,000.00	$47,917.00	$83,716.00
97–99 [illegible]					
100 Net Income 101 Before Taxes	$359,243.00	$269,836.00	$413,846.00	$214,576.00	$127,542.00
102–104 [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BR001051

Moody's Investors
INDUSTRY REVIEW

April 17, 1987

CHEMICALS - MISCELLANEOUS

COMPARATIVE STATISTICS

COMPANY	EXCH	SYMBOL	PRICE RANGE (52 WEEKS) HIGH	LOW	RECENT PRICE	EARNINGS PER SHARE LATEST 12 MOS.	1985	1984	1983	IND. DIV.	1985 BOOK VALUE PER SH.	1985 STKHLDRS' EQUITY ($MILL)	1985 LONG-TERM DEBT(%)
Aceto Corp. [1][4]	OTC	ACET	[3] 20 1/2	16 3/4	18 1/2	1.49	1.47	1.38	1.02	[2] 0.07	12.60	41.20	7.20
Cetus Corp. [1]	OTC	CTUS	[3] 42 1/2	17 7/8	27 1/2	0.04	0.04	0.05	0.04	Nil	7.40	196.20	1.20
Ethyl Corp.	NYS	EY	32 1/4	16	29 1/2	[5] 1.40	0.92	0.82	0.65	0.40	5.92	789.60	30.70
GAF Corp.	NYS	GAF	47	28 3/4	47	2.10	1.57	1.31	d1.12	0.10	8.45	298.20	45.50
Hyponex Corp.	OTC	HYPX	[3] 19	5	13	1.04	1.20	0.79	0.74	Nil	5.28	31.20	49.40
Lubrizol Corp.	NYS	LZ	40 1/4	25 3/4	37 1/4	1.92	1.49	1.73	1.65	1.20	12.06	519.30	11.10
Pantasote, Inc.	ASE	PNT	13 7/8	7 7/8	10 3/8	d3.33	d3.40	0.27	0.29	Nil	4.88	19.10	33.10
Park Electrochemical Corp. [6]	NYS	PKE	24	13 5/8	23 1/2	1.00	0.85	1.41	1.10	0.12	9.08	46.80	4.20
PPG Industries, Inc.	NYS	PPG	49 3/4	29 1/4	44 3/8	[5] 2.66	2.66	2.27	2.16	Nil	[5] 16.62	[5] 1,977.80	[5] 30.10
RAI Research Corp. [7]	ASE	RAC	9 7/8	6 1/4	6 7/8	0.58	0.47	0.57	0.24	Stk	3.78	8.40	13.60
Seton Co.	ASE	SEL	16 1/2	9 3/4	16 1/4	0.90	0.93	0.98	0.59	0.10	4.04	31.10	42.20
United-Guardian, Inc. [4]	OTC	UNIR	[3] 12 3/8	4 1/2	8 1/4	0.03	0.03	0.09	d0.12	Nil	0.78	3,737.10	19.80

NOTE: All per sh. fig. adj. for stk. spl./stk. div. Spectrum Group, Inc. acq. by Cheesebourgh-Pond's, Inc. [1] Fiscal year ends 6/30. [2] Plus stk. [3] 1986-87. [4] Co. does not report interim earnings. [5] 1986. [6] Fiscal year ends 2/28. [7] Fiscal year ends 5/31. [8] 1984.

FINANCIAL DATA-LATEST ANNUAL RANKINGS

REVENUES ($ MILL.)

RANK	COMPANY	'85 AMT
1	United-Guardian, Inc.	[5] 4,687.10
2	PPG Industries, Inc.	4,345.50
3	Ethyl Corp.	[5] 1,579.30
4	Lubrizol Corp.	903.40
5	GAF Corp.	732.00
6	Pantasote, Inc.	132.80
7	Aceto Corp.	105.90
8	Seton Co.	102.40
9	Hyponex Corp.	91.90
10	Park Electrochemical	87.80
11	Cetus Corp.	50.00
12	RAI Research Corp.	7.40

NET INCOME ($ MILL.)

RANK	COMPANY	'85 AMT
1	PPG Industries, Inc.	[5] 316.40
2	Ethyl Corp.	[5] 177.70
3	United-Guardian, Inc.	120.10
4	Lubrizol Corp.	60.20
5	GAF Corp.	54.30
6	Aceto Corp.	9.60
7	Hyponex Corp.	7.20
7	Seton Co.	7.20
9	Park Electrochemical	4.40
10	Cetus Corp.	1.10
10	RAI Research Corp.	1.10
12	Pantasote, Inc.	d13.30

OPERATING PROFIT MARGIN (%)

RANK	COMPANY	'85 AMT
1	RAI Research Corp.	23.00
2	PPG Industries, Inc.	[5] 16.40
3	Hyponex Corp.	13.90
4	Seton Co.	12.90
5	Ethyl Corp.	12.60
6	GAF Corp.	12.00
7	Lubrizol Corp.	9.50
8	Aceto Corp.	8.00
9	Park Electrochemical	6.80
10	United-Guardian, Inc.	3.60
11	Cetus Corp.	2.50
12	Pantasote, Inc.	...
	Average	10.10

RETURN ON CAPITAL (%)

RANK	COMPANY	'85 AMT
1	GAF Corp.	14.18
2	Seton Co.	12.36
3	Hyponex Corp.	11.24
4	Aceto Corp.	11.00
5	RAI Research Corp.	10.00
6	PPG Industries, Inc.	[5] 9.75
7	Lubrizol Corp.	9.14
8	Ethyl Corp.	9.00
9	Park Electrochemical	8.20
10	United-Guardian, Inc.	2.58
11	Cetus Corp.	0.60
12	Pantasote, Inc.	...
	Average	8.20

NET PLANT ($ MILL.)

RANK	COMPANY	'85 AMT
1	PPG Industries, Inc.	[5] 2,660.60
2	United-Guardian, Inc.	942.60
3	Ethyl Corp.	557.30
4	Lubrizol Corp.	290.30
5	GAF Corp.	194.10
6	Cetus Corp.	36.30
7	Park Electrochemical	23.80
8	Seton Co.	20.50
9	Hyponex Corp.	19.90
10	Pantasote, Inc.	14.60
11	Aceto Corp.	[8] 4.30
12	RAI Research Corp.	3.40

RETURN ON NET PLANT (%)

RANK	COMPANY	'85 AMT
1	Aceto Corp.	[8] 116.00
2	GAF Corp.	39.97
3	Hyponex Corp.	36.30
4	Seton Co.	34.97
5	RAI Research Corp.	31.40
6	Ethyl Corp.	21.02
7	Lubrizol Corp.	20.75
8	Park Electrochemical	18.42
9	United-Guardian, Inc.	12.70
10	PPG Industries, Inc.	[5] 11.89
11	Cetus Corp.	3.02
12	Pantasote, Inc.	...

CURRENT RATIO

RANK	COMPANY	'85 AMT
1	RAI Research Corp.	8.80
2	United-Guardian, Inc.	4.75
3	Seton Co.	3.80
4	Aceto Corp.	3.57
5	Cetus Corp.	3.10
6	Park Electrochemical	2.98
7	Lubrizol Corp	2.45
8	Ethyl Corp.	2.11
9	Hyponex Corp.	1.95
10	GAF Corp.	1.70
11	PPG Industries, Inc.	[5] 1.66
12	Pantasote, Inc.	1.61

CAPITAL EXPENDITURES ($ MILL.)

RANK	COMPANY	'85 AMT
1	PPG Industries, Inc.	[5] 497.60
2	United-Guardian, Inc.	269.80
3	Ethyl Corp.	98.20
4	GAF Corp.	47.20
5	Lubrizol Corp.	39.50
6	Park Electrochemical	4.90
7	RAI Research Corp.	0.20
8	Aceto Corp.	...
8	Cetus Corp.	...
8	Hyponex Corp.	...
8	Pantasote, Inc.	...
8	Seton Co.	...

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CHEMICALS - MISCELLANEOUS (Continued)

PRICE-EARNINGS RATIO

RANK	COMPANY	AMT
1	Park Electrochemical	23.50
2	GAF Corp.	22.40
3	Ethyl Corp.	21.10
4	Lubrizol Corp.	19.40
5	Seton Co.	18.10
6	PPG Industries, Inc.	16.70
7	Hyponex Corp.	12.50
8	Aceto Corp.	12.40
9	RAI Research Corp.	11.90
10	Cetus Corp.	...
10	Pentasote, Inc.	...
10	United-Guardian, Inc.	...
	Average	13.20

YIELD (%)

RANK	COMPANY	AMT
1	Lubrizol Corp.	3.20
2	Ethyl Corp.	1.40
3	Seton Co.	0.60
4	Park Electrochemical	0.50
5	Aceto Corp.	0.40
6	GAF Corp.	0.20
7	Cetus Corp.	...
7	Hyponex Corp.	...
7	Pentasote, Inc.	...
7	PPG Industries, Inc.	...
7	RAI Research Corp.	...
7	United-Guardian, Inc.	...
	Average	0.50

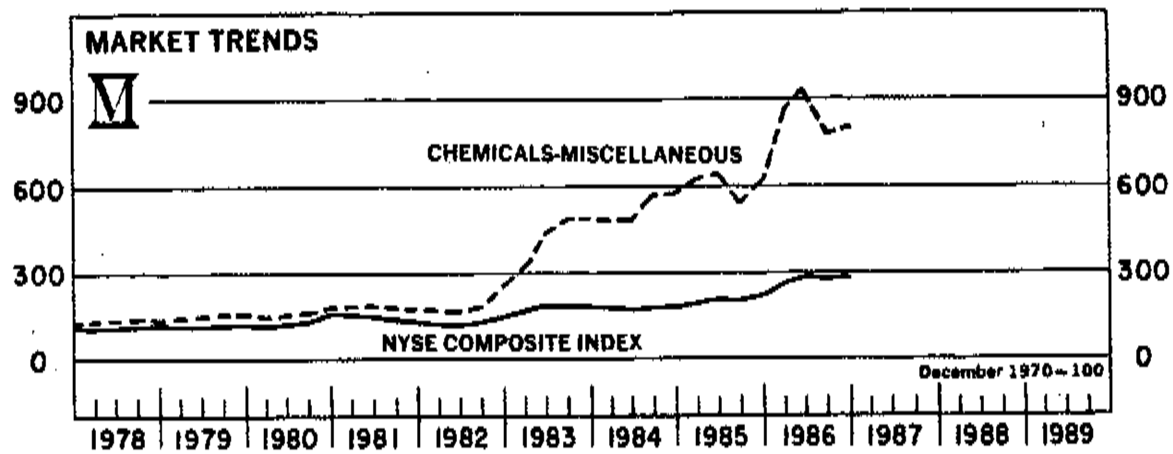
12-MONTH PRICE SCORE

RANK	COMPANY	AMT
1	Ethyl Corp.	117.70
2	PPG Industries, Inc.	109.62
3	GAF Corp.	105.28
4	Lubrizol Corp.	103.47
5	Seton Co.	98.72
6	RAI Research Corp.	90.71
7	Aceto Corp.	90.28
8	Park Electrochemical	88.50
9	Pentasote, Inc.	85.20
10	Cetus Corp.	83.42
11	Hyponex Corp.	...
11	United-Guardian, Inc.	...
	Average	81.10

7-YEAR PRICE SCORE

RANK	COMPANY	AMT
1	Park Electrochemical	190.90
2	GAF Corp.	176.18
3	Ethyl Corp.	165.26
4	PPG Industries, Inc.	135.01
5	Seton Co.	131.87
6	Pentasote, Inc.	120.55
7	Lubrizol Corp.	84.35
8	RAI Research Corp.	70.40
9	Aceto Corp.	3.93
10	Cetus Corp.	...
10	Hyponex Corp.	...
10	United-Guardian, Inc.	...
	Average	89.90

COMPOSITE STOCK PRICE MOVEMENTS



Moody's Investors
INDUSTRY REVIEW

June 12, 1987

CHEMICALS - SPECIALITIES & GASES

COMPARATIVE STATISTICS

COMPANY	EXCH	SYMBOL	PRICE RANGE (52 WEEKS) HIGH	PRICE RANGE (52 WEEKS) LOW	RECENT PRICE	EARNINGS PER SHARE LATEST 12 MOS	1985	1984	1983	IND. DIV.	1986 BOOK VALUE PER SH	1986 STKHLDRS' EQUITY ($MILL)	1986 LONG-TERM DEBT(%)
Air Products & Chemicals, Inc. [1]	NYS	APD	48½	29⅛	43	[2] 0.08	2.38	2.28	1.78	0.80	18.67	1,100.10	33.00
Andros Analyzers Inc.	OTC	ANDY	[3] 15¾	6¾	15¼	[4] 0.48	0.15	0.68	0.29	Nil	3.63	9.20	---
Applied Biosystems, Inc. [5]	OTC	ABIO	[3] 44¾	21¼	22½	0.78	---	0.58	0.33	Nil	[6] 6.31	[6] 81.20	---
Betz Laboratories, Inc. [7]	OTC	BETZ	[3] 49½	32½	44¾	[2] 2.23	2.33	2.33	2.08	1.40	12.95	204.00	---
C-I-L, Inc. [8]	TSE	CILT	---	---	---	[2] 0.77	1.75	1.59	1.09	0.40	24.05	391.00	16.30
Cabot Corp. [1]	NYS	CBT	40	27½	36½	[9] 2.33	2.22	2.83	2.00	0.92	21.16	591.10	37.10
Chemed Corp.	NYS	CHE	43½	29½	35½	[2] 0.76	2.15	2.00	2.17	1.60	8.39	119.80	26.30
Crompton & Knowles Corp.	NYS	CNK	22½	15⅝	21⅜	[2] 1.33	1.10	1.16	0.91	0.68	7.20	68.50	20.90
Detrex Corp.	OTC	DTRX	[3] 42½	37¼	38	[4] 1.58	3.01	3.50	2.51	1.20	25.20	39.80	16.30
Dionex Corp. [10]	OTC	DNEX	[3] 36½	12⅜	27¾	1.60	1.37	0.97	0.72	Nil	[6] 9.99	[6] 45.80	[6] 0.50
Essex Chemical Corp	NYS	ESX	35	20½	30⅛	[2] 1.44	1.40	1.50	0.80 [11]	0.60	9.57	59.40	32.80
Ferro Corp.	NYS	FOE	56	32¾	44¾	[2] 3.54	1.32	2.53	3.04	1.32	32.72	223.30	22.10
Fuller (H.B.) Co. [12]	OTC	FULL	[3] 35½	14½	35½	[2] 2.00	1.44	1.40	1.47	0.42	14.25	135.50	20.50
Great Lakes Chemical Corp	ASE	GLK	61⅝	30	57	[2] 1.79	1.93	2.38	1.63	0.60	11.50	216.30	39.60
Grow Group, Inc. [10]	NYS	GRO	15	10⅛	10¾	0.57	0.93	0.78	0.77 [11]	0.30	[6] 6.04	[6] 80.10	[6] 33.70
Lawter International, Inc.	NYS	LAW	19⅞	12⅛	19⅞	[2] 0.74	d0.31	0.86	0.83	0.56	3.15	55.20	6.20
LeaRonal, Inc. [13]	NYS	LRI	21⅝	12⅝	19⅛	1.00	0.80	1.07	0.92	0.48	[6] 8.70	[6] 52.80	[6] 5.00
Liquid Air Corp.	OTC	LANA	[3] 36½	27½	32	[2] 2.42	2.42	2.07	1.80	1.60	24.16	338.70	32.70
Loctite Corp. [10]	NYS	LOC	63¼	38¾	57¼	2.79	2.56	2.24	2.67	1.00	[6] 16.60	[6] 153.60	[6] 8.10
MacDermid, Inc. [14]	OTC	MACD	[3] 34½	17	29	1.34	1.04	1.75	1.97	0.52	[6] 9.38	[6] 34.10	[6] 18.90
Nalco Chemical Co.	NYS	NLC	35½	23½	35	[2] 1.62	1.87	1.86	1.64	1.20	8.92	407.50	6.40
NCH Corp. [15]	NYS	NCH	36½	26¾	31½	2.00	1.77	1.59	1.35	0.72	[6] 16.30	[6] 151.40	[6] 9.20
Oakite Products, Inc.	NYS	OKT	32½	26⅝	28⅝	[2] 1.60	2.24	2.88	1.40	1.52	16.22	26.50	5.90
Pennwalt Corp	NYS	PSM	67	44	57¼	[2] 3.64	0.05	3.27	3.58	2.20	33.29	374.50	30.20
Petrolite Corp. [16]	OTC	PLIT	[3] 34¾	23¾	34¾	[2] 1.51	1.91	2.18	2.47	1.12	13.55	164.60	2.70
Products Research & Chemical Corp. [1]	NYS	PRC	21⅞	14⅞	17⅞	[2] 0.78	0.65	0.43	0.48	0.32	5.30	50.10	3.90
Quaker Chemical Corp.	OTC	QCHM	[3] 19½	12	19¼	[2] 1.26	1.09	1.05	1.02	0.50	10.06	66.70	11.20
Reichhold Chemicals, Inc.	NYS	RCI	48½	28⅞	36⅝	[2] 2.13	d3.85	3.63	2.74	0.80	22.00	196.10	29.40
Sequa Corp. [1] [17]	NYS	SQAA	73⅛	45	62⅝	[2] 5.20	3.41	3.36	1.35	0.60	0.60	632.00	29.70
Stepan Co	ASE	SCL	42	28¼	39¾	[2] 2.53	1.89	1.66	1.76	0.80	19.06	55.00	30.50
WD-40 Co. [18]	OTC	WDFC	[3] 46½	20¼	30¼	[2] 1.54	1.25	1.35	1.07	1.52	4.33	32.50	---
Witco Corp.	NYS	WIT	47⅜	31⅛	39½	[2] 2.93	2.57	2.85	2.40	1.12	20.21	465.50	15.30

NOTE: All per sh. fig. adj. for stk. spl./stk. div. [1] Fiscal year ends 9/30. [2] 1986. [3] 365-day. [4] 1986. 0.47. [5] Fiscal year ends 6/29. [6] 1985. [7] Co. does not report interim earn. [8] U.S. $ equivalent. [9] 1986, 2.56 [10] Fiscal year ends 6/30. [11] Plus stk. [12] Fiscal year ends 11/30. [13] Fiscal year ends 2/28. [14] Fiscal year ends 3/31. [15] Fiscal year ends 4/30. [16] Fiscal year ends 10/31. [17] Formerly Sun Chemical Corp [18] Fiscal year ends 8/31.

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CHEMICALS - SPECIALITIES & GASES (Continued)

FINANCIAL DATA-LATEST ANNUAL RANKINGS

REVENUES ($MILL.)

RANK	COMPANY	'86 AMT
1	Air Products & Chemicals	1,982.10
2	Witco Corp.	1,355.00
3	Cabot Corp.	1,309.90
4	Pennwalt Corp.	1,107.60
5	C-I-L, Inc.	934.10
6	Reichhold Chemicals, Inc.	765.60
7	Nalco Chemical Co.	736.70
8	Ferro Corp.	725.20
9	Liquid Air Corp.	570.60
10	Fuller (H.B.) Co.	578.50
11	NCH Corp.	374.60
12	Sequa Corp.	371.40
13	Grow Group, Inc.	366.20
14	Betz Laboratories, Inc.	344.40
15	Chemed Corp.	318.30
16	Great Lakes Chemical	300.30
17	Petrolite Corp.	280.00
18	Loctite Corp.	266.80
19	Stepan Co.	259.80
20	Crompton & Knowles	213.20
21	Essex Chemical Corp.	205.60
22	Quaker Chemical Corp.	128.10
23	LeaRonal, Inc.	105.00
24	Lawter International, Inc.	103.50
25	Detrex Corp.	94.20
26	Products Res. & Chem.	92.10
27	MacDermid, Inc.	86.30
28	Oakite Products, Inc.	79.60
29	WD-40 Co.	69.40
30	Applied Biosystems, Inc.	51.80
31	Dionex Corp.	45.00
32	Andros Analyzers Inc.	12.00

NET INCOME ($MILL)

RANK	COMPANY	'86 AMT
1	Cabot Corp.	73.10
2	Witco Corp.	65.20
3	Nalco Chemical Co.	63.70
4	Pennwalt Corp.	51.90
5	Betz Laboratories, Inc.	35.50
6	Liquid Air Corp.	34.70
7	Great Lakes Chemical	26.80
8	Sequa Corp.	26.10
9	Ferro Corp.	24.10
10	Loctite Corp.	23.20
11	Fuller (H.B.) Co.	18.90
12	Petrolite Corp.	17.50
13	NCH Corp.	17.10
14	Reichhold Chemicals, Inc.	15.90
15	C-I-L, Inc.	14.50
16	Lawter International, Inc.	12.90
17	WD-40 Co.	11.60
18	Applied Biosystems, Inc.	10.40
19	Grow Group, Inc.	10.10
20	Crompton & Knowles	8.90
21	Essex Chemical Corp.	8.80
22	Quaker Chemical Corp.	8.50
23	LeaRonal, Inc.	8.00
24	Stepan Co.	7.50
25	Dionex Corp.	7.40
25	Products Res. & Chem.	7.40
27	Chemed Corp.	6.80
28	Air Products & Chemicals	4.70
29	MacDermid, Inc.	3.80
30	Oakite Products, Inc.	2.60
31	Detrex Corp.	2.50
32	Andros Analyzers Inc.	1.10

OPERATING PROFIT MARGIN (%)

RANK	COMPANY	'86 AMT
1	WD-40 Co.	30.80
2	Dionex Corp.	25.60
3	Applied Biosystems, Inc.	21.80
4	Liquid Air Corp.	19.30
5	Lawter International, Inc.	19.00
6	Betz Laboratories, Inc.	18.40
7	Andros Analyzers Inc.	14.80
8	Nalco Chemical Co.	14.70
9	Great Lakes Chemical	14.30
10	Products Res. & Chem.	14.00
11	Loctite Corp.	13.80
12	Air Products & Chemicals	12.90
13	Cabot Corp.	12.40
14	Witco Corp.	12.00
15	Crompton & Knowles	9.90
16	NCH Corp.	9.80
17	MacDermid, Inc.	9.20
18	Petrolite Corp.	8.60
18	Quaker Chemical Corp.	8.60
20	Pennwalt Corp.	8.40
20	Sequa Corp.	8.40
22	Detrex Corp.	8.03
23	LeaRonal, Inc.	7.90
24	Ferro Corp.	7.60
25	Fuller (H.B.) Co.	7.50
26	Grow Group, Inc.	7.30
27	Essex Chemical Corp.	7.00
27	Oakite Products, Inc.	7.00
29	Stepan Co.	6.90
30	C-I-L, Inc.	6.70
31	Reichhold Chemicals, Inc.	5.20
32	Chemed Corp.	0.80
	Average	11.80

RETURN ON CAPITAL (%)

RANK	COMPANY	'86 AMT
1	WD-40 Co.	35.40
2	Detrex Corp.	30.10
3	Betz Laboratories, Inc.	17.42
4	Lawter International, Inc.	16.81
5	Dionex Corp.	16.17
6	Nalco Chemical Co.	13.86
7	Applied Biosystems, Inc.	12.64
8	Products Res. & Chem.	11.81
9	Andros Analyzers Inc.	11.76
10	Quaker Chemical Corp.	10.88
11	Fuller (H.B.) Co.	10.42
11	Witco Corp.	10.42
13	NCH Corp.	10.25
14	LeaRonal, Inc.	10.00
15	Grow Group, Inc.	9.70
16	Crompton & Knowles	9.58
17	Petrolite Corp.	9.44
18	Oakite Products, Inc.	8.68
19	MacDermid, Inc.	8.62
20	Pennwalt Corp.	8.28
21	Essex Chemical Corp.	7.87
22	Ferro Corp.	7.80
23	Stepan Co.	6.57
24	Great Lakes Chemical	6.50
24	Loctite Corp.	6.50
26	Cabot Corp.	6.35
27	Liquid Air Corp.	5.70
28	Reichhold Chemicals, Inc.	5.02
29	Chemed Corp.	3.80
30	Sequa Corp.	2.82
31	C-I-L, Inc.	1.82
32	Air Products & Chemicals	0.22
	Average	10.40

NET PLANT ($ MILLIONS)

RANK	COMPANY	'86 AMT
1	Air Products & Chemicals	1,829.10
2	Liquid Air Corp.	475.30
3	Pennwalt Corp.	436.30
4	C-I-L, Inc.	421.40
5	Witco Corp.	367.80
6	Sequa Corp.	304.30
7	Nalco Chemical Co.	280.20
8	Great Lakes Chemical	209.40
9	Reichhold Chemicals, Inc.	203.00
10	Ferro Corp.	153.70
11	Betz Laboratories, Inc.	144.10
12	Fuller (H.B.) Co.	109.00
13	Petrolite Corp.	94.10
14	Stepan Co.	85.60
15	Grow Group, Inc.	80.90
16	Essex Chemical Corp.	68.80
17	Loctite Corp.	57.70
18	NCH Corp.	57.60
19	Chemed Corp.	46.60
20	Quaker Chemical Corp.	29.50
21	Crompton & Knowles	28.50
22	MacDermid, Inc.	24.60
23	Lawter International, Inc.	22.40
24	Detrex Corp.	21.60
25	Products Res. & Chem.	17.60
26	Oakite Products, Inc.	13.10
27	LeaRonal, Inc.	11.80
28	Applied Biosystems, Inc.	9.80
29	Dionex Corp.	5.90
30	Andros Analyzers Inc.	3.30
31	WD-40 Co.	2.10
32	Cabot Corp.	0.60

RETURN ON NET PLANT (%)

RANK	COMPANY	'86 AMT
1	Dionex Corp.	126.00
2	Applied Biosystems, Inc.	106.20
3	Lawter International, Inc.	51.68
4	LeaRonal, Inc.	51.20
5	Products Res. & Chem.	41.81
6	Loctite Corp.	40.15
7	Andros Analyzers Inc.	33.57
8	Crompton & Knowles	31.30
9	NCH Corp.	29.70
10	Quaker Chemical Corp.	28.94
11	Betz Laboratories, Inc.	24.67
12	Nalco Chemical Co.	22.72
13	Oakite Products, Inc.	19.90
14	Petrolite Corp.	18.55
15	Witco Corp.	17.73
16	Fuller (H.B.) Co.	17.36
17	Ferro Corp.	15.67
18	MacDermid, Inc.	15.20
19	Chemed Corp.	14.70
20	Essex Chemical Corp.	12.84
21	Great Lakes Chemical	12.80
22	Grow Group, Inc.	12.48
23	Pennwalt Corp.	11.90
24	Detrex Corp.	11.56
25	Cabot Corp.	11.38
26	Stepan Co.	8.78
27	Sequa Corp.	8.60
28	Reichhold Chemicals, Inc.	7.81
29	Liquid Air Corp.	7.28
30	WD-40 Co.	5.50
31	C-I-L, Inc	2.49
32	Air Products & Chemicals	0.26

CURRENT RATIO

RANK	COMPANY	'86 AMT
1	Applied Biosystems, Inc.	9.42
2	Andros Analyzers Inc.	6.77
3	WD-40 Co.	6.18
4	LeaRonal, Inc.	6.04
5	Dionex Corp.	5.16
6	Lawter International, Inc.	3.75
7	Detrex Corp.	3.73
8	Products Res. & Chem.	3.63
9	Quaker Chemical Corp.	3.60
10	Petrolite Corp.	3.05
11	Oakite Products, Inc.	2.78
12	NCH Corp.	2.63
13	Witco Corp.	2.49
14	Betz Laboratories, Inc.	2.48
15	Great Lakes Chemical	2.43
16	Grow Group, Inc.	2.40
17	Loctite Corp.	2.34
18	Crompton & Knowles	2.30
19	Pennwalt Corp.	2.13
20	Sequa Corp.	2.10
21	Ferro Corp.	2.06
22	Cabot Corp.	2.04
23	Fuller (H.B.) Co.	2.02
24	MacDermid, Inc.	1.99
25	Nalco Chemical Co.	1.76
26	Chemed Corp.	1.68
27	Stepan Co.	1.61
28	Reichhold Chemicals, Inc.	1.55
29	Air Products & Chemicals	1.49
30	Essex Chemical Corp.	1.46
31	C-I-L, Inc.	1.23
32	Liquid Air Corp.	1.17

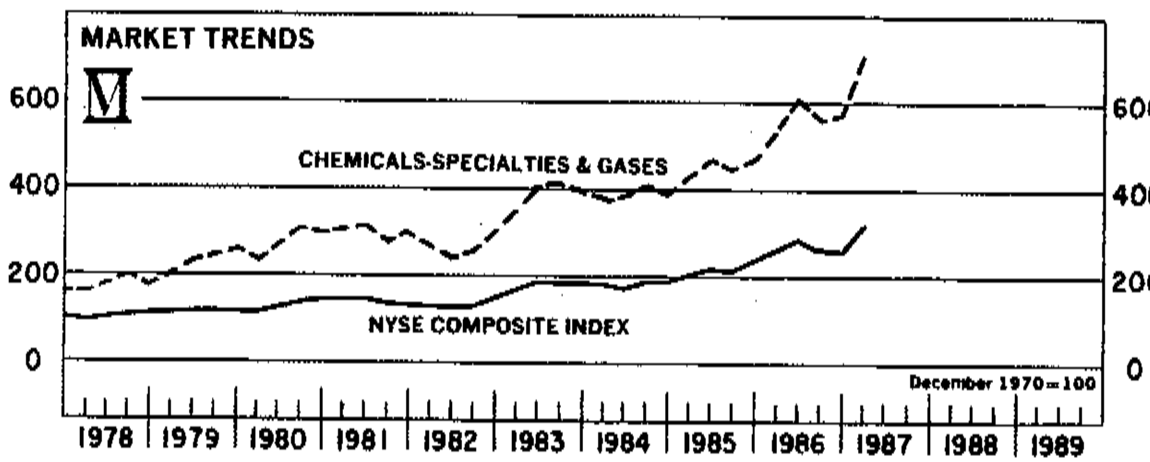
CAPITAL EXPENDITURES ($MILL.)

RANK	COMPANY	'85 AMT
1	Air Products & Chemicals	385.00
2	Liquid Air Corp.	130.60
3	Great Lakes Chemical	91.60
4	Cabot Corp.	72.60
5	Nalco Chemical Co.	63.60
6	Witco Corp.	60.10
7	Pennwalt Corp.	54.40
8	Reichhold Chemicals, Inc.	40.90
9	C-I-L, Inc.	38.40
10	Petrolite Corp.	25.30
11	Betz Laboratories, Inc.	24.20
12	Ferro Corp.	23.60
13	Sequa Corp.	17.50
14	Stepan Co.	14.30
15	Fuller (H.B.) Co.	14.10
16	Grow Group, Inc.	11.70
17	Essex Chemical Corp.	11.60
18	Loctite Corp.	9.30
19	Applied Biosystems, Inc.	8.00
20	Detrex Corp.	6.90
21	Products Res. & Chem.	5.40
22	NCH Corp.	5.20
23	Quaker Chemical Corp.	5.10
24	Oakite Products, Inc.	1.80
25	Lawter International, Inc.	1.60
26	Andros Analyzers Inc.	...
26	Chemed Corp.	...
26	Crompton & Knowles	...
26	Dionex Corp.	...
26	LeaRonal, Inc.	...
26	MacDermid, Inc.	...
26	WD-40 Co.	...

CHEMICALS - SPECIALITIES & GASES (Continued)

PRICE-EARNINGS RATIO			YIELD (%)			12-MONTH PRICE SCORE			7-YEAR PRICE SCORE		
RANK	COMPANY	AMT	RANK	COMPANY	AMT	RANK	COMPANY	AMT	RANK	COMPANY	AMT
1	Chemed Corp.	46.70	1	Oakite Products, Inc.	5.30	1	Andros Analyzers Inc.	119.48	1	Essex Chemical Corp.	125.74
2	Great Lakes Chemical	31.80	2	Liquid Air Corp.	5.00	2	Great Lakes Chemical	114.26	2	Fuller (H.B.) Co.	122.66
3	Andros Analyzers Inc.	31.70	2	WD-40 Co.	5.00	3	Ferro Corp.	111.41	3	Witco Corp.	120.51
4	Applied Biosystems, Inc.	28.80	4	Chemed Corp.	4.50	4	LeaRonal, Inc.	110.54	4	Stepan Co.	118.59
5	Lawter International, Inc.	26.80	5	Pennwalt Corp.	3.80	5	Reichhold Chemicals, Inc.	109.75	5	Products Res. & Chem.	111.64
6	Detrex Corp.	24.10	6	Nalco Chemical Co.	3.40	6	Essex Chemical Corp.	109.65	6	Crompton & Knowles	110.59
7	Petrolite Corp.	23.00	7	Crompton & Knowles	3.20	7	MacDermid, Inc.	109.53	7	Detrex Corp.	105.00
8	Products Res. & Chem.	22.90	7	Detrex Corp.	3.20	8	Loctite Corp.	107.47	8	WD-40 Co.	101.36
9	MacDermid, Inc.	21.60	7	Petrolite Corp.	3.20	9	WD-40 Co.	107.42	9	Air Products & Chemicals	101.01
9	Nalco Chemical Co.	21.60	10	Betz Laboratories, Inc.	3.10	10	Petrolite Corp.	104.89	10	Pennwalt Corp.	96.64
11	Essex Chemical Corp.	20.90	11	Ferro Corp.	2.90	11	Fuller (H.B.) Co.	104.75	11	Grow Group, Inc.	95.83
12	Loctite Corp.	20.50	12	Grow Group, Inc.	2.80	12	Air Products & Chemicals	104.28	12	NCH Corp.	95.47
13	Betz Laboratories, Inc.	20.10	12	Lawter International, Inc.	2.80	13	Nalco Chemical Co.	104.12	13	Lawter International, Inc.	93.56
14	WD-40 Co.	19.60	12	Witco Corp.	2.80	14	Crompton & Knowles	104.01	14	Loctite Corp.	92.63
15	LeaRonal, Inc.	19.10	15	Quaker Chemical Corp.	2.60	15	Dionex Corp.	103.32	15	Reichhold Chemicals, Inc.	92.61
16	Grow Group, Inc.	18.90	16	Cabot Corp.	2.50	16	Grow Group, Inc.	103.25	16	Ferro Corp.	91.86
17	Oakite Products, Inc.	17.90	16	LeaRonal, Inc.	2.50	17	Pennwalt Corp.	103.01	17	Quaker Chemical Corp.	90.57
18	Fuller (H.B.) Co.	17.80	18	NCH Corp.	2.30	18	Witco Corp.	102.96	18	Great Lakes Chemical	89.37
19	Dionex Corp.	17.30	19	Reichhold Chemicals, Inc.	2.20	19	Stepan Co.	102.03	19	MacDermid, Inc.	87.22
20	Reichhold Chemicals, Inc.	17.20	20	Essex Chemical Corp.	2.00	20	Quaker Chemical Corp.	99.78	20	Liquid Air Corp.	86.21
21	Crompton & Knowles	16.10	20	Stepan Co.	2.00	21	NCH Corp.	99.20	21	Betz Laboratories, Inc.	83.77
22	NCH Corp.	15.80	22	Air Products & Chemicals	1.90	22	Products Res. & Chem.	98.82	22	Chemed Corp.	81.90
23	Pennwalt Corp.	15.70	23	MacDermid, Inc.	1.80	23	Betz Laboratories, Inc.	98.47	23	Cabot Corp.	76.91
24	Cabot Corp.	15.60	23	Products Res. & Chem.	1.80	24	Lawter International, Inc.	98.29	24	Oakite Products, Inc.	76.22
25	Stepan Co.	15.50	25	Loctite Corp.	1.70	25	Cabot Corp.	98.11	25	Nalco Chemical Co.	71.79
26	Quaker Chemical Corp.	15.30	26	Fuller (H.B.) Co.	1.20	26	Liquid Air Corp.	94.88	26	LeaRonal, Inc.	71.04
27	Witco Corp.	13.50	27	Great Lakes Chemical	1.10	27	Chemed Corp.	94.63	27	Petrolite Corp.	59.96
28	Liquid Air Corp.	13.20	28	Sequa Corp.	1.00	28	Oakite Products, Inc.	88.30	28	Andros Analyzers Inc.	...
29	Ferro Corp.	12.60	29	Andros Analyzers Inc.	...	29	Detrex Corp.	87.27	28	Applied Biosystems, Inc.	...
30	Sequa Corp.	12.00	29	Applied Biosystems, Inc.	...	30	Applied Biosystems, Inc.	73.63	28	C-I-L, Inc.	...
31	Air Products & Chemicals	...	29	C-I-L, Inc.	...	31	C-I-L, Inc.	...	28	Dionex Corp.	...
31	C-I-L, Inc.	...	29	Dionex Corp.	...	31	Sequa Corp.	...	28	Sequa Corp.	...
	Average	19.20		Average	2.40		Average	95.90		Average	79.70

COMPOSITE STOCK PRICE MOVEMENTS



Current Data 116(6/30-9/30/85) 0-1MM	1-10MM	145(10/1/85-3/31/86) 10-50MM	50-100MM	ALL	Type of Statement	Comparative Historical Data 6/30/81-3/31/82	6/30/82-3/31/83	6/30/83-3/31/84	6/30/84-3/31/85	6/30/85-3/31/86
11	52	15	1	79	Unqualified	DATA NOT AVAILABLE			86	79
2	6	1		8	Qualified				6	8
27	46	1		74	Reviewed				71	74
44	31	1		76	Compiled				71	76
11	11	1	1	24	Other				34	24
0-1MM	1-10MM	10-50MM	50-100MM	ALL	ASSET SIZE	ALL	ALL	ALL	ALL	ALL
95	146	19	2	261	NUMBER OF STATEMENTS	262	288	259	270	261
%	%	%	%	%	ASSETS	%	%	%	%	%
10.3	6.8	6.1		8.0	Cash & Equivalents	7.3	8.7	8.7	8.3	8.0
38.7	39.0	31.9		38.3	Trade Receivables - (net)	38.1	36.5	38.4	39.6	38.3
27.7	27.3	20.3		27.7	Inventory	27.8	26.2	24.4	27.0	27.7
1.7	1.8	2.9		1.7	All Other Current	1.9	2.2	2.1	1.9	1.7
78.4	74.7	70.4		75.7	Total Current	75.0	72.6	73.5	74.8	75.7
15.5	18.6	23.3		17.9	Fixed Assets (net)	18.4	19.7	19.1	18.3	17.8
.6	.9	.2		.7	Intangibles (net)	.3	.5	.5	.4	.7
5.5	5.8	6.0		5.8	All Other Non-Current	6.3	7.2	6.8	6.5	5.8
100.0	100.0	100.0		100.0	Total	100.0	100.0	100.0	100.0	100.0
					LIABILITIES					
13.9	9.6	6.5		11.2	Notes Payable-Short Term	11.3	10.1	10.5	10.9	11.2
4.5	3.0	2.3		3.4	Cur. Mat.-L/T/D	2.7	2.4	2.3	3.4	3.4
28.8	31.2	27.4		30.0	Trade Payables	29.3	28.1	30.0	32.1	30.0
.7	.8	.6		.9	Income Taxes Payable	-	-	-	.9	.9
9.5	7.7	5.5		8.2	All Other Current	11.1	10.1	9.2	8.8	8.2
57.4	52.7	44.3		53.9	Total Current	54.4	50.8	52.1	56.0	53.8
10.5	10.2	13.5		10.6	Long Term Debt	9.5	10.6	9.7	10.6	10.6
.2	.6	2.3		.5	Deferred Taxes	-	-	-	.6	.6
1.3	1.4	.6		1.5	All Other Non-Current	1.7	1.7	1.6	1.2	1.5
30.7	35.2	39.2		33.7	Net Worth	34.4	37.0	36.6	31.6	33.7
100.0	100.0	100.0		100.0	Total Liabilities & Net Worth	100.0	100.0	100.0	100.0	100.0
					INCOME DATA					
100.0	100.0	100.0		100.0	Net Sales	100.0	100.0	100.0	100.0	100.0
34.1	25.6	18.8		28.1	Gross Profit	24.8	24.9	25.3	25.4	28.1
30.1	22.9	15.1		24.8	Operating Expenses	21.5	22.2	22.3	22.7	24.8
4.0	2.7	3.7		3.2	Operating Profit	3.3	2.7	3.1	2.8	3.2
1.0	.4	.3		.6	All Other Expenses (net)	.3	.5	.7	.5	.6
3.0	2.3	3.4		2.6	Profit Before Taxes	3.0	2.1	2.4	2.3	2.6
					RATIOS					
1.8	1.9	1.9		1.9	Current	1.8	2.0	1.9	1.7	1.9
1.4	1.3	1.4		1.4		1.3	1.4	1.4	1.3	1.4
1.1	1.1	1.4		1.1		1.1	1.1	1.1	1.1	1.1
1.1	1.2	1.6		1.2	Quick	1.1	1.3	1.3	1.1	1.2
.9	.8	1.0		.9		.8	.9	.8	.8	.9
.5	.6	.8		.6		.6	.6	.7	.6	.6
31 11.8	39 9.4	39 9.3		37 10.0	Sales/Receivables	33 11.0	31 11.6	38 9.7	36 10.2	37 10.0
42 8.6	46 8.0	47 7.7		43 8.4		43 8.5	40 9.2	46 8.0	48 8.7	43 8.4
51 7.2	54 6.8	53 6.8		53 6.9		54 6.8	52 7.0	68 6.2	54 6.8	53 6.9
23 16.0	26 14.1	25 14.5		25 14.4	Cost of Sales/Inventory	24 15.0	20 18.4	20 18.2	22 16.4	25 14.4
45 8.2	39 9.3	37 9.8		42 8.6		40 9.1	38 9.5	42 8.6	40 9.2	42 8.6
74 4.9	73 5.0	85 4.3		73 5.0		63 5.8	60 6.1	61 6.0	63 5.8	73 5.0
29 12.5	31 11.7	35 10.4		31 11.7	Cost of Sales/Payables	27 13.6	24 15.1	31 11.9	33 11.2	31 11.7
43 8.4	45 8.2	43 8.5		44 8.3		41 9.0	40 9.1	46 8.0	47 7.8	44 8.3
64 5.7	62 5.9	53 6.9		62 5.9		62 5.9	58 6.3	61 6.0	61 6.0	62 5.8
7.9	8.5	6.4		8.3	Sales/Working Capital	8.9	8.1	8.3	10.0	8.3
15.4	16.2	13.2		14.8		17.6	16.5	14.7	15.3	14.8
74.0	45.4	17.4		48.9		43.4	49.2	37.9	57.4	48.9
8.1	7.8	8.9		6.8	EBIT/Interest	5.8	7.2	9.5	8.3	6.8
(86) 3.2	(132) 2.8	4.3		(239) 3.2		(209) 2.8	(236) 2.4	(219) 3.0	(224) 2.9	(239) 3.2
1.5	1.6	2.2		1.6		1.4	1.2	1.4	1.5	1.5
6.5	7.2	8.8		6.9	Net Profit + Depr., Dep., Amort./Cur. Mat. L/T/D	7.6	8.4	8.2	6.8	6.8
(40) 2.5	(87) 2.7	(17) 4.2		(146) 2.7		(149) 3.1	(145) 3.1	(150) 3.2	(155) 2.7	(146) 2.7
1.2	1.1	2.2		1.4		1.4	1.6	1.8	1.6	1.4
.2	.2	.4		.2	Fixed/Worth	.2	.2	.2	.2	.2
.3	.6	.5		.4		.5	.5	.5	.6	.4
.9	1.0	1.0		1.0		.9	1.0	1.0	1.1	1.0
1.3	1.1	1.1		1.1	Debt/Worth	1.2	.9	1.0	1.2	1.1
2.3	2.5	1.7		2.3		2.2	2.0	1.9	2.5	2.3
6.2	4.2	2.9		4.5		3.6	3.9	3.6	4.8	4.5
48.3	28.3	29.0		36.1	% Profit Before Taxes/Tangible Net Worth	35.6	29.5	31.2	33.4	35.1
(89) 26.2	(140) 16.4	20.6		(260) 18.8		(260) 20.9	(280) 13.6	(255) 16.3	(261) 18.6	(250) 18.8
6.3	6.4	7.6		6.3		10.1	2.7	5.4	7.2	6.3
14.7	10.2	11.5		11.6	% Profit Before Taxes/Total Assets	12.3	10.6	11.0	10.7	11.6
7.6	4.7	8.3		5.6		6.4	4.7	5.4	6.4	5.6
2.0	1.7	2.8		1.7		2.8	.6	1.7	1.7	1.7
72.6	55.4	30.9		56.2	Sales/Net Fixed Assets	49.2	56.6	51.8	64.1	56.2
30.5	25.6	13.9		26.1		24.1	25.7	24.1	25.1	26.1
14.7	10.1	7.1		10.6		11.5	9.9	9.0	10.6	10.6
4.4	3.9	3.6		4.0	Sales/Total Assets	4.0	3.9	3.9	4.0	4.0
3.4	3.2	2.8		3.2		3.1	3.1	2.9	3.1	3.2
2.4	2.4	1.9		2.4		2.5	2.4	2.1	2.3	2.4
.7	.5	.9		.6	% Depr., Dep., Amort./Sales	.6	.5	.7	.6	.6
(81) 1.4	(137) 1.1	(18) 1.2		(236) 1.1		(241) 1.0	(253) 1.0	(228) 1.2	(240) 1.1	(236) 1.1
2.3	2.2	2.2		2.2		1.8	2.0	2.4	2.0	2.2
2.9	1.8			1.9	% Officers' Comp/Sales	2.0	2.0	1.7	1.4	1.9
(43) 5.8	(51) 2.9			(95) 4.3		(104) 3.3	(128) 3.7	(99) 3.5	(96) 3.3	(95) 4.3
9.9	5.8			7.1		5.3	6.6	6.4	6.6	7.1
180712M	1659016M	1060439M	394924M	3295091M	Net Sales ($)	2983180M	2831466M	3460461M	4268356M	3295091M
47900M	489772M	424650M	118767M	1061089M	Total Assets ($)	679856M	905367M	1180074M	1350630M	1061089M

M = $thousand MM = $million

See Pages 1 through 13 for Explanation of Ratios and Data

This industry group is now reviewed regularly in Edition 8. Producers of specialty chemicals are reviewed in Edition 3. Diversified chemical manufacturers are reviewed in Edition 12.

Gains from international trade in 1987 are likely to offset weaknesses in three key domestic markets- agriculture, housing, and automotive. In fact, modest volume growth, price increases greater than raw materials price hikes, a high capacity utilization rate, benefits from restructuring, the lower dollar, and declining interest expenses should all add up to outstanding earnings comparisons this year.

Protectionist measures taken by the United States may well do more harm than good to the chemical industry.

***Rohm and Hass* common and *Dow Chemical* shares are likely to outperform the year-ahead market averages. Most of the other equities in this group will probably keep pacc with the market in both the year-ahead and through 1989-91.**

COMPOSITE STATISTICS: CHEMICAL (BASIC) INDUSTRY

1982	1983	1984	1985	1986	1987	© VALUE LINE, INC.	89-91E
65616	68237	70386	63350	58078	*62460*	Sales ($mill)	*78920*
17.1%	17.5%	19.2%	19.2%	22.9%	*24.5%*	Operating Margin	*24.5%*
3699.3	3914.2	3992.4	4317.6	4451.6	*4410*	Depreciation ($mill)	*5380*
2017.3	2328.6	3177.2	2260.2	3194.0	*3960*	Net Profit ($mill)	*5945*
50.4%	53.4%	51.8%	53.2%	41.7%	*40.0%*	Income Tax Rate	*37.0%*
3.1%	3.4%	4.5%	3.6%	5.5%	*6.3%*	Net Profit Margin	*7.5%*
10712	9726.9	9077.2	8085.0	8107.4	*10540*	Working Cap'l ($mill)	*17800*
13829	11886	10467	11491	12643	*13145*	Long-Term Debt ($mill)	*12525*
27271	28198	29098	28026	26747	*29140*	Net Worth ($mill)	*39170*
7.0%	7.5%	9.4%	7.2%	9.6%	*11.0%*	% Earned Total Cap'l	*12.5%*
7.4%	8.3%	10.9%	8.1%	11.9%	*13.5%*	% Earned Net Worth	*15.0%*
2.1%	3.0%	5.4%	2.1%	5.9%	*7.0%*	% Retained to Comm Eq	*7.0%*
71%	65%	51%	74%	51%	*40%*	% All Div'ds to Net Prof	*40%*
10.6	13.1	8.9	13.9	12.6		Avg Ann'l P/E Ratio	*11.0*
1.17	1.11	.83	1.13	.85		Relative P/E Ratio	*.90*
6.7%	4.9%	5.7%	5.3%	4.0%		Avg Ann'l Div'd Yield	*3.0%*

Modest Volume Growth

Chemical products can generally be broken down into five categories—**agricultural chemicals** (fertilizers and pesticides), **organic chemicals** (ethylene, benzene, propylene, and styrene used for plastics, fibers, detergents, pharmaceuticals, adhesives), **synthetics** (fibers and plastics used in the packaging, construction, consumer products, and automotive industries), **basic chemicals** (chlorine/caustic soda, industrial gases, phosphorous, and sulfuric acid used in the pulp/paper, bleaching, water treatment, and the electronics industries), and **specialty chemicals** (used for detergents, electronic equipment, cosmetics, paints, drugs, etc.

Consumers do not witness the manufacturing process, so chemical usage is not evident in many products. Nevertheless, it's safe to say that chemicals are utilized in the manufacture of virtually all durable and nondurable goods. As such, the profits of these companies are very sensitive to the level of economic activity.

General economic trends will work in the industry's favor this year. Value Line estimates call for modest economic growth throughout most of the industrialized world. In the United States, an expected falloff in the housing, construction and farm sectors will certainly not help. But the lower dollar should lead to more chemical exports and increased domestic output from heavy users of chemicals—appliance manufacturers, the electronics and semiconductor industries, and the textile, apparel, and packaging sectors. All in all, we expect volume growth to be about 3% this year.

INDUSTRY TIMELINESS: 22 (of 91)

Plus Restructuring Goes A Long Way

In the early to mid-1980s, U.S. chemical companies realized that the aggressive capacity additions of the 1970s were unwarranted given likely global economic growth and competition from imports. As a result, restructuring—which included plant closures, asset sales and writedowns, reductions in middle-management levels, refinancing of debt, and share buybacks—became widely used within the industry.

Now, in the late 1980s, chemical companies are in a position to benefit from their previous painful cost-cutting efforts. Reduced supply in the face of modestly increasing demand has lifted capacity utilization rates to the mid-80% level. Because of this tight supply/demand relationship, increases in raw materials costs (crude oil) can simply be passed along to customers. At the same time, breakeven points are much lower due to headcount reductions and a lower depreciable base. The net result is that operating earnings for many of these companies will rise at least 25% this year. With interest expenses falling and fewer shares outstanding, many companies are looking at 1987 share earnings growth in the neighborhood of 30%.

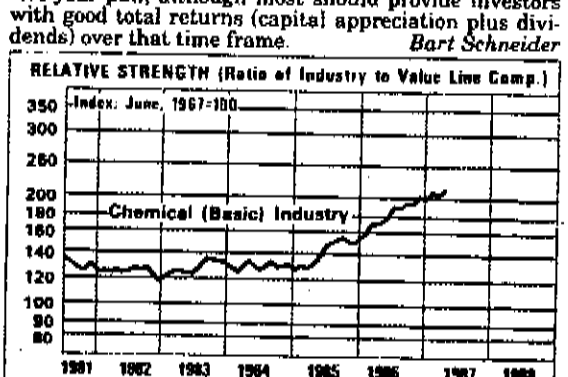
Protectionist Policies Are Anathema To The Industry

Most of these companies have a substantial presence in foreign markets. Thus, any action which would reduce world trade is likely to be a net minus for the industry. What's more, the chemical business is one of the few American industries with a trade surplus. (In 1985, exports of $22.8 billion outpaced imports of $15 billion.) Because of this trade surplus, we think U.S. chemical companies are logical targets for foreign governments looking to retaliate against U.S. protectionist legislation.

Investment Considerations

Most of the chemical equities have already had huge run-ups in price in anticipation, we think, of this year's earnings growth. Nevertheless, the shares of *Rohm and Haas* (a major beneficiary of the declining dollar) and *Dow Chemical* (will benefit from the lower dollar and favorable pricing trends for commodity chemicals) may still outperfrom the year-ahead market averages. Risk-oriented investors might want to take a look at *Union Carbide* because of that company's excellent earnings potential after the latest financial restructuring. None of these equities stands out over the three- to five-year pull, although most should provide investors with good total returns (capital appreciation plus dividends) over that time frame. *Bart Schneider*

RELATIVE STRENGTH (Ratio of Industry to Value Line Comp.)



CHEMICAL/DIVERSIFIED INDUSTRY

INDUSTRY TIMELINESS: 18 (of 91)

Most chemical companies are likely to outperform the general economy by a substantial margin in 1987. Key factors behind the industry's favorable prospects are high operating rates, relatively low raw materials costs, and improving international competitiveness stemming from the weak dollar. In 1988, business conditions probably will moderate, but are likely to remain generally favorable.

Softness in the chemical industry is currently concentrated in the agrochemical segment. A continued rise in interest rates would probably spread the weakness to suppliers to interest-rate-sensitive industries (construction and auto).

No equity in this group is ranked lower than Average for Timeliness. The stocks of *Ethyl*, *GAF*, *Millipore*, and *National Distillers* are recommended for year-ahead relative price performance.

COMPOSITE STATISTICS: CHEMICAL/DIVERSIFIED INDUSTRY

1982	1983	1984	1985	1986	1987	© VALUE LINE, INC.	89-91E
27571	29105	31005	28681	27434	29100	Sales ($mill)	38400
14.7%	14.5%	15.6%	15.5%	17.2%	18.0%	Operating Margin	18.0%
1401.8	1536.5	1630.0	1683.2	1683.6	1770	Depreciation ($mill)	2330
1590.3	1501.5	1790.7	1574.0	1403.9	1720	Net Profit ($mill)	2300
36.2%	38.1%	38.5%	35.9%	46.2%	37.0%	Income Tax Rate	36.0%
5.8%	5.2%	5.8%	5.5%	5.1%	5.9%	Net Profit Margin	6.0%
5295.2	5475.8	5480.3	5899.5	5579.3	5900	Working Cap'l ($mill)	7800
4466.3	4415.9	4681.6	5087.2	5935.9	5400	Long-Term Debt ($mill)	5000
13126	13544	13723	14176	13911	14800	Net Worth ($mill)	19500
10.3%	9.6%	11.1%	9.5%	8.5%	9.5%	% Earned Total Cap'l	10.0%
12.1%	11.1%	13.1%	11.1%	10.1%	11.5%	% Earned Net Worth	12.0%
5.4%	4.5%	6.5%	4.5%	3.6%	5.5%	% Retained to Comm Eq	6.0%
57%	61%	51%	60%	65%	58%	% All Div'ds to Net Prof	52%
9.8	14.0	11.4	14.4	18.9		Avg Ann'l P/E Ratio	13.0
1.09	1.18	1.06	1.17	1.14		Relative P/E Ratio	1.10
5.7%	4.3%	4.5%	4.2%	3.1%		Avg Ann'l Div'd Yield	3.2%

Margins Are Wide, Due To High Operating Rates . . .

In the early 1980s, many domestic chemical companies correntlv forecast that the growth in demand for bulk, or commodity chemicals, would slow in the years ahead. The priority accorded the war on inflation, as against maximum economic growth, was one reason. The deteriorating global competitiveness of Smokestack America (the largest consumer of chemical materials), and the concomitant shift to a service-based economy, was another. In response, many producers pared down their commodity chemical operations to the most efficient core, eliminated capacity in slow-growth segments, and emphasized technology-intensive, low-volume operations in their expansion plans. As a result of these restructuring moves, capacity utilization rates in many segments of the chemical industry now hover around the 90% mark, compared with the mid-sixties levels common only five years ago.

. . . Low Feedstock Costs . . .

The generally tight market for chemical products contrasts sharply with the continuing glut in hydrocarbon feedstocks. Indeed, most chemicals are derived from natural gas, which has yet to experience even the limited price recovery underway in the oil industry. As a result, many chemical producers are enjoying the best of both worlds: buyers' markets for inputs, sellers' markets for output. Polyethylene currently represents the clearest example of this trend: Thus, *National Distillers*, the largest U.S. polyethylene producer, has seen its raw materials costs fall as a result of an overabundance of natural gas liquids, at the same time that its selling prices are rising, due to tight supply and rising demand.

. . . And The Weaker Dollar

Margins on domestically-produced chemicals have also expanded as a consequence of the depreciation of the dollar, which has put United States chemical companies (and their customers in the domestic industrial sector) in a more favorable position relative to overseas rivals.

Has The Peak Been Passed?

Higher profits, of course, eventually will attract more competition. And by next year, we think the spread between product and raw materials prices will have begun to narrow. Moreover, the impact of the weak dollar on year-to-year comparisons will diminish once the dollar bottoms out. For these reasons, we expect the rate of increase in chemical-industry earnings to moderate in 1988. Whereas in the current year virtually all companies are experiencing double-digit profit gains, in subsequent years these probably will be limited to a few, including those serving the strongest end-markets, those with proprietary market strengths, etc.

Agrochemicals, Construction Materials

Even in the midst of an industry uptrend company performance is significantly correlated with end-market conditions. Currently, due to the slump in the farm economy, fertilizer producers are the laggards of the chemical industry. Recently, the three companies in the present group with substantial fertilizer interests have all moved to shift their sales mix toward healthier markets: *International Minerals* is expanding into medical products, livestock growth stimulants, and flavors and fragrances. *First Mississippi* is emphasizing industrial specialty chemicals and minerals. And, most recently, *W. R. Grace* put its ailing agrochemicals division on the auction block. But if staying in a depressed market can hurt the bottom line, so can the process of exiting such a market: *W. R. Grace* took a $220 million charge for losses on the discontinued operations. We note, too, that suppliers of chemical materials to the cyclical construction industry, although currently strong, may be vulnerable to rising interest rates. (See our individual-company reports on *GAF* and *Koppers*.)

Pharmaceuticals, Electronics Chemicals

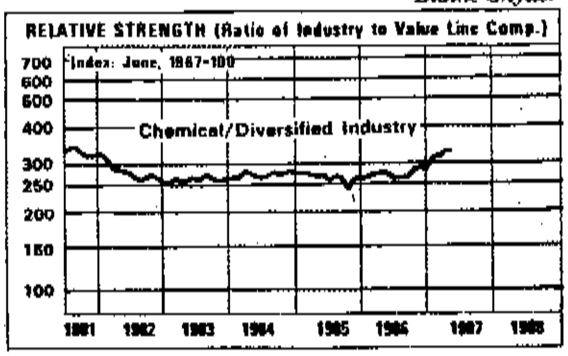
With the exception of those mentioned above, the companies in this group generally face healthy end-markets. The drug industry, and the medical products sector generally, continiue to be particularly voracious consumers of chemical materials. (See *American Cyanamid*, *Ethyl*, and *Millipore*.) The electronics industry, another important market (and perhaps the most promising over the long term), appears to be emerging from a prolonged recession.

Investment Considerations

Ethyl stock carries our highest rank for year-ahead relative price performance. The equities of *GAF*, *Millipore*, and *National Distillers* are also likely to outperform the stock market in the coming six to 12 months.

Blaine Snyder

RELATIVE STRENGTH (Ratio of Industry to Value Line Comp.)



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Small chemical firms: A balance sheet

Highlighted by such developments as last August's White House Conference on Small Business and the subsequent decision to keep the Small Business Administration as an independent agency, 1986 has been eventful for U.S. small business generally; but for bantam-size chemical companies the year has been particularly challenging. Gary L. Mossman, group vice-president for Dixie Chemical (Houston), declares, "This is both the best and worst of times—depending on your viewpoint and the condition of your business."

In one sense, maintains Mossman, restructuring activities throughout the chemical industry have presented smaller companies unparalleled opportunities—e.g., to exploit niche market areas that larger firms choose to bypass as being too narrow to fit their strategies. Mossman also notes that big companies are increasingly receptive to joint projects with smaller, entrepreneurial enterprises—a factor that has been helpful in funding numerous fledgling ventures. And, Mossman points out, the larger companies' organizational shakeups and shakeouts have freed an abundance of experienced executive talent for smaller companies to draw on.

Environmental and safety regulations and liability insurance are the big hurdles

But on the negative side, Mossman and others cite complicated environmental and plant safety regulations, along with such other factors as difficulty in obtaining liability insurance coverage—problems that can be particularly grievous for small companies. Citing the record-keeping requirements of some regulations, Mossman contends, "It's obvious that without deep pockets you need an ongoing business of probably $7-15 million, depending on profit margin, to pay for inside and outside experts to deal with this area."

Few hands. The difference is that the larger companies are better able to absorb the impact, says Newman H. Giragosian, president of Delphi Marketing Services (New York City) and chairman of the American Chemical Society's Div. of Small Chemical Businesses. Trying to comply with each new health or safety regulation means "another pair of hands that has to be kept busy"—a major concern for small business, which by definition has only relatively few hands available.

At a time when major corporations are paring back on staff in the name of stepped-up efficiency, it seems to some smaller companies that they are being forced to assume increased staffing activities, says Ronald Lang, president of the Synthetic Organic Chemical Manufacturers Assn. (SOCMA). Lang notes that if a federal regulation is released in the form of a 100-page document, a big corporation can call in a team of attorneys to analyze the measure, then muster a team of engineers to debate the steps that the company should take to ensure compliance with the regulation. "In a smaller company," says Lang, "those 100 pages are dropped on the owner's desk."

Mossman: "The best and worst of times."

That kind of data crunch, Lang suggests, is largely responsible for the big 1986 increase in the number of SOCMA's member companies; this year's 42 newcomers pushed the total to 193. At more than 75% of those member companies, sales are less than $30 million/year apiece, says Lang, and he maintains that they share a common problem in trying to keep up with a torrent of complex detail work. "An important role that SOCMA plays," he says, "is to help small companies by predigesting new regulations."

At SOCMA, Lang says, there's "a very interesting symbiosis" that helps the big and small member companies. But he contends that, at the governmental level, it's probably SOCMA's efforts to articulate small-company concerns that have the greater impact. There are numerous congressmen who are not concerned about the impact of legislation on Du Pont, he says, but who do care about the viability of small companies. Lang says occasionally regulators and legislators have been prompted to rethink policies when they are shown that a new rule that would represent only a pinprick for a giant company might cripple the small fry.

Restrictions. The complications can be multiplied for small producers, especially those that deal in small volumes of hundreds, even thousands, of chemical products. "Most people don't realize the restrictions on small-volume chemicals," says President B. David Halpern of Polysciences (Warrington, Pa.), who calls his business "a typical fine-chemical catalog supply house." He says a company could easily spend $500 to meet regulatory requirements for a single product—for instance, in preparing Material Safety Data Sheets—while the company's total sales of that product might well be less than $500/year.

Ultimately, the impact could affect the availability of certain products, suggests Lawrence Rosen, president of Pressure Chemical (Pittsburgh). His company supplies materials for fundamental research, and he frequently gets an order from a university or pharmaceutical company to make a small quantity, say 50 grams, of a given compound. "A year ago, we would have been very happy to do this, but today we look at it differently," says Rosen. "If we use three or four different intermediates, it means much more paperwork" because of Occupational Safety and Health Administration regulations and community right-to-know laws.

Trying to reconcile different labeling requirements in different jurisdictions is an especially difficult problem for small chemical companies, says John Datesh, president of Pittsburgh-based Dacar Chemical. His warning: Unless the federal government takes action, and the courts rule that federal standards should prevail in all states, a company could be forced to provide different labeling for each state in which a given product is sold.

In addition, Datesh points to the increased difficulty in obtaining affordable liability insurance—also the No. 1

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concern noted at the White House Conference on Small Business. Because of insurance problems, says Datesh, Dacar has dropped some of its product offerings, principally office solvents.

Dixie Chemical's Mossman says that the biggest disappointment for large and small companies alike is that in rate setting, insurance companies now tend to view an industry across the board, rather than case by case. "There is no longer selectivity or a reward for being a class operator," he laments. Increasingly, he says, companies will be pooling insurance or going to offshore carriers. And some smaller companies may be drawn into partnerships with larger companies, primarily because the big corporations have adequate coverage.

SOCMA's Lang says that some small chemical processors, hit with premiums that exceed their profits, have opted "fundamentally to gamble the company that something doesn't go wrong." He predicts that increased anxiety about liability coverage will probably lead to more sales of smaller producers to larger companies.

Another factor that has been particularly troublesome for some small U.S. chemical companies is the competition from abroad. For instance, Dacar has seen a decline in one of its key product lines, rustproofing chemicals for automobiles, because many imported cars have already been treated with rust-preventive compounds.

"I don't think the Administration realizes what the effect of foreign competition has been on small organizations," says Charles Nathanson, president of Soluol Chemical (East Warwick, R.I.). He argues that there has been less impact on big companies "because they are mostly multinationals anyway."

Tentmakers. John J. O'Neil, Soluol's vice-president, reports that the company, a producer of urethane chemicals, lost a considerable amount of business because of imports from the Far East. Soluol used to supply fire retardants to tentmakers. Now, says O'Neil, a large proportion of the tents coming into the U.S. are already treated.

The weaker dollar has helped some small U.S. companies in their battle with international competitors. And something else that has been particularly helpful for Soluol, relates O'Neil, is a trait—flexibility, or the ability to respond rapidly to shifting market conditions—that is a widely recognized advantage of small businesses. "If we have conditions that appear different from what we are accustomed to, we can make adjustments, such as dropping one product and moving into another," says O'Neil. "And we can do that more quickly."

Polysciences' Halpern agrees that in a small company, "decisions are made rapidly, and you can turn on a dime." Under similar circumstances, he contends, a much larger company can appear "almost immobilized."

Another advantage of small businesses, some argue, is the ability to get close to customers. Where there are small companies operating in small niche areas, "You may get much more senior-level involvement" in sales and customer relations, says George Seiler, president of Profit Planning Associates (Montclair, N.J.), a consulting firm.

'Intrapreneurship.' As for some large companies' much-publicized efforts in recent years to instill small-company dynamics into their organizations, smaller companies' executives say the jury is still out. "All managers are creatures of the environment in which they have trained and operated," says Dixie's Mossman. The true test of the effectiveness of big-company drives to spur "intrapreneurship" will come in 2-3 years, maintains Mossman—when it's possible to assess whether such programs have really generated an increased flow of new products and profits.

'A lot more fun than a big company, and, in theory, a lot more profitable too'

But Mossman and others say that regulatory concerns make the job of starting up a brand-new chemical business more difficult than ever. Mossman notes that getting capital for any kind of new venture is a formidable task—and much more formidable for a venture that also has to bear the costs of complying with complicated regulatory procedures and must buy expensive liability insurance. Polyscience's Halpern warns that anyone interested in starting a chemical business from scratch had better come to prospective backers with "a damned good idea."

Despite the hurdles, SOCMA's Lang feels that there will still be plenty of interest in getting into small business. For those with an entrepreneurial bent, he says, life in a small firm is simply "a lot more fun than in a big company—and, in theory, it can be a lot more profitable, too." And, as Soluol's O'Neil says of today's small-business climate, "It's very interesting and never dull."□

W. DAVID GIBSON, with Jackie Campbell in Pittsburgh

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Another Carbide unit is up for sale

Union Carbide has put its electrical carbon business on the sales block in another move to reduce debt and enhance shareholder value. In the next few weeks, Carbide plans to "conduct business reviews" with selected potential buyers. The business for sale involves a range of carbon-based specialty products for the industrial marketplace, including carbon brushes and arc carbons, and has operations at Fostoria, Ohio; Greenville, S. C.; Parma, Ohio; Toronto, Canada; Juarez, Mexico; and Sheffield, England. But Carbide is continuing to produce other carbon products, including graphite electrodes for the steel and aluminum industries.

Economics Laboratory ups its stake in Japan

In line with its strategy to focus on the formulation of specialized sanitizing and cleaning products for consumers, institutions, dairies and food processors, and to boost its Asian sales, Economics Laboratory (EL) has purchased Chisso Corp.'s (Tokyo) half interest in their joint subsidiary, EL Japan. That venture was formed in 1969 to manufacture and distribute, in Japan, products from EL's Institutional Div. and its Klenzade Div., which makes a variety of products for dairy farmers and food processors. EL—based in St. Paul, Minn.—says that with full ownership it can combine the EL Japan operation with its wholly owned Japanese consumer products subsidiary—a move that the company says will enhance its ability to penetrate the Japanese market. Says Gerald K. Carlson, senior vice-president for EL's International Div., "With the world's second-largest gross national product, sixth-largest population and the presence of a number of leading hotels and restaurant chains, Japan presents a very attractive market for EL."

Rapid growth is foreseen for chemical distributors

For U. S. distributors of industrial chemicals, aggregate sales will reach $12.6 billion by 1990, reflecting a 5.2%/year growth rate. That's the estimate of Charles H. Kline & Co. (Fairfield, N. J.), a market research firm, which adds that the chemical distributors' sales will grow more than 50% faster than total U. S. consumption of industrial chemicals. A recent Kline report says that among the factors contributing to the stepped-up use of distributors are the chemical producers' desire to consolidate their own sales forces and thereby reduce their selling costs; the producers' discovery that in many instances they can realize a greater net back by using distributors; and the need to accommodate the many customers that are maintaining leaner inventories and requiring shorter delivery times. Meanwhile, distributors are expanding their services and their product lists. According to the survey, makers of paints and coatings buy 25% of their raw materials from distributors and sell 10% of their output through distributors. And Kline predicts that the chemical distributors will achieve particularly rapid growth in their sales to the electronics and pharmaceutical industries.

Brazil looks to the U. S. Gulf Coast for styrene

For about the past 10 years, Brazil has been a net exporter of styrene, with most of those exports earmarked for the Far East. Now, however, traders report that at least three Brazilian styrene consumers have purchased the monomer from U. S. Gulf Coast suppliers to help meet increased demand stemming from Brazil's growing use of polystyrene. Estireno do Nordeste, a major Brazilian styrene and polystyrene producer, last week bought 2,000 metric tons of styrene from Interbras, a state trading concern, which obtained the monomer from the U. S. for about 17¢/lb. Traders report that two other Brazilian-Gulf Coast deals, involving 3,000-3,500 m.t. of styrene, were also made last week. Last winter, when economic reforms froze all prices, the Brazilian domestic demand for consumer goods—some of which contain polystyrene—rose sharply, preempting supplies that otherwise would have been exported.

Biotech firms battle over an anticancer drug patent

Amgen (Thousand Oaks, Calif.) is suing Cetus (Emeryville, Calif.) in an attempt to invalidate Cetus's U. S. patents on the anticancer drug interleukin-2 (IL-2). Amgen asserts that its IL-2 does not infringe on the Cetus patents and asks the court to consider the scope of those patents. "The question is whether Cetus's patents are broad enough to prevent Amgen from marketing its [IL-2] molecule," says biotechnology analyst Carol Hall at Sutro & Co. (San Francisco). Amgen Vice-President Robert Weist says that Amgen filed suit after it received a report—which Cetus's general counsel has denied—that Cetus was preparing to sue Amgen for patent infringement. Weist contends that Amgen's genetically engineered mutein product is chemically different from Cetus's, in that it has an aniline unit in position 125 of the amino acid sequence, where the Cetus product has cerine. Cetus counsel Michael Ostrach says that while Amgen's IL-2 is different, Cetus's patents are broad and cover more than just the mutein. Adds Ostrach: "We think [Amgen's] suit is without merit." Cetus's IL-2 is already in late Phase II trials in the U. S. Amgen has completed Phase I trials.

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kets as laundry softeners, hair conditioners and antistatic agents for textile fibers. Next year, the company plans to introduce a line of specialty nonionic surfactants for industrial cleaning and dishwashing detergent applications.

Through last week's Mazer purchase—the price of which is estimated by James Wilbur of the Smith Barney (New York City) investment firm at about $50 million—PPG picks up a company with "a fairly diverse product line," according to a surfactant competitor's marketing manager. Mazer makes fatty acid esters based on such polyols as sorbitol, glycerine and polyethylene glycol for use as emulsifiers in the food industry and for cosmetics and toiletries. It manufactures silicone defoamers for paper, metalworking and some pharmaceutical uses. The company, which is not basic in its raw materials, also makes anionic phosphate esters for metal cleaning and defoamers for the sugar refining industry.

Market openings. The deal gives PPG "entrée to certain surfactant markets [such as food and pharmaceuticals] in which it has not previously been involved," says Marilyn Bradshaw, business manager for the Colin A. Houston & Associates (Mamaroneck, N.Y.) consulting firm. Its Jordan subsidiary supplies quaternary surfactants for textile fiber, cosmetic and biocidal uses, as well as amphoteric surfactants for cosmetic and toiletry applications. And, McQueen says, PPG is selling "developmental levels" of its Avanel S line into industrial and household cleaning, metal processing and cosmetic and toiletry markets. The company plans to market the bulk of Mazer's output, but will use some internally for such PPG businesses as coatings, resins and glass fiber.

PPG will now have "more horsepower to bring surfactant technology to market," notes one competitor. Mazer "doesn't do a heck of a lot of basic research," contends another industry observer. Notes a surfactants competitor, "PPG will help Mazer on sales, technical service and development."

Mazer will operate as a subsidiary and will be a part of PPG's Chemicals Group. Robert Mazer, president and founder of Mazer Chemicals, will continue in his position. The company—with sales offices in Manchester, England; Mississauga, Ont.; and Mexico City—generates about 10% of its revenue outside the U.S.

The Jordan and Mazer acquisitions have made PPG an approximately $60 million/year producer of surfactants, and the company says it hopes to gross about $100 million/year in that business by 1990. It's moving up on the major U.S. surfactant manufacturers, some of which have sales in the $100-300 million/year range.

"Mazer has been an attractive acquisition candidate and has been approached by a number of companies," says Houston's Bradshaw. "It's hard to grow in the business by grass roots," adds Chem Listner, executive vice-president of Findtech, a subsidiary of the Kline & Co. (Fairfield, N.J.) consulting firm. "That's why these small surfactant companies are hot." □

LANGDON BROCKINTON

Cost-price pinches distributors

"Now here, you see, it takes all the running you can do to keep in the same place."

Lewis Carroll said it in *Alice's Adventures Through the Looking Glass*, and chemical distributors are thinking it now, according to Peter Mullins, a financial consultant to the National Assn. of Chemical Distributors (NACD). Mullins outlined two Performance Analysis Reports at NACD's 15th annual convention in Naples, Fla., last month.

Mullins voiced the feelings of many NACD members, who say that they are working harder and achieving less. Distributors of chemical products, he says, are being squeezed between costs that keep rising and prices that are declining at about 8%/year. Mullins holds that if the situation continues—and if distributors don't find ways to wriggle out of the squeeze—marginal companies face short futures.

Thin ice. The deflation situation "is like walking on melting ice all day long—most of the time you fall through," says Bruce Houghton, executive vice-president at Houghton Chemical (Allston, Mass.). Organic liquids, with feedstocks of oil and gas, have taken the biggest deflationary hit, Houghton adds. "It has affected the whole company—our discounts, our pricing, everything," he says. "[Since 1980] most product managers, for example, have not put through a price increase, even when supplies are tight." That is in marked contrast to pricing practices in the 12 years preceding 1980 when inflation ran at relatively high rates, Houghton says.

Increased efficiency and productivity, furthermore, are not panaceas for the problems associated with deflation, Mullins comments. Better technology will not necessarily help to make distributors significantly more efficient. "It's easy to say that productivity can be increased through the use of computers," Mullins adds, "but it's hard to do." The basic functions of distribution—sales, warehousing and shipping—he says, "will still require worker hours."

The proliferation of litigation and its impact on insurance rates are amoung the most serious problems facing producers and distributors alike, says Houghton. Big financial judgments and settlements in some cases, he adds, have pushed up insurance costs, "which every American eventually pays."

Donald Shipp, executive vice-president at Hawkins Chemicals (Minneapolis), says that, "Actually, the chemical industry is no more hazardous than the grocery industry. But people hear only what they want to, as far as the dangers of chemical distribution are concerned."

Public opposition set up sizable hurdles when Hawkins started to build a warehouse a few years ago, Shipp says. "We weren't even going to package anything," he notes. "But our opponents used tears and gnashing their teeth and everything else they could think of," Shipp adds. "It had nothing to do with logic."

Improving operations. To help alleviate the problem of public misperception, John Johnstone, chief operating officer for Olin and the keynote speaker at the convention, urged all involved in the production, use and distribution of chemicals to work to eliminate unacceptable, careless mistakes and to act responsibly. For assistance in improving operations and meeting regulatory rules, he suggests that entrepreneurial distributors could ask their suppliers to make available the manufacturer's highly qualified specialists already working on regulatory matters.

Johnstone foresees consolidation among distributors and manufacturers within the next few years. He also expects distributors to concentrate on eliminating what he characterizes as "destructive practices," such as lack of planning and carrying insufficient inventories. By 1990, he predicts, distributors will be moving 30% of all chemical shipments, compared with about 20% in 1980. The world market for chemicals

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will expand as well, he adds, with low-cost producers showing most of the growth.

Good management and marketing practices will be the keys to continued success for companies in the chemical distribution sector, Mullins concludes. Houghton agrees, citing his own company as an example. "We're a healthy and ongoing concern because we didn't overmortgage ourselves," he says. "All this rising competition will probably be healthy for us in the long term." □

LINDA J. WILSON, with George Meyer in St. Petersburg, Fla.

Gallium arsenide: A Cinderella

Gallium arsenide (GaAs) currently represents a relatively modest business, less than $100 million worldwide last year, and the market now is far from robust. But that may change rapidly. A survey by market research firm Frost & Sullivan, reported in *Electronic Chemical News*, forecasts that by 1995, U.S. sales of GaAs semiconductors will reach $5.2 billion. Another analysis sees the worldwide business growing to $14 billion/year by 1994 (*graph, p. 14*).

A number of recent developments may make those figures a reality. The just-released federal budget is expected to spur GaAs development with about $10 million in funding for a variety of research projects. The Defense Dept. at the end of last year awarded a 2-year, $4.4 million contract to General Electric (GE) for GaAs research. The contract also is aimed at speeding commercial production of high-quality crystals.

Exploration. Private interests are actively working on GaAs, too. This year the field has proved alluring enough to attract at least one new venture, Gazelle Microcircuits (Sunnyvale, Calif.), which is entering the business with Jerry R. Crowley, former vice-chairman of Oki Semiconductor, as its chairman. And in mid-August, GaGe Minerals (Provo, Utah) raised enough money—through a private placement—to begin exploration of what it contends is the world's only known area with the potential to provide economic amounts of gallium and germanium ores.

Universities also are aware of the promise of GaAs. In mid-October, researchers at the University of Illinois created a major stir, saying they invented the world's fastest transistor, which uses indium with GaAs. The transistor, fabricated and tested with the help of GE and licensed exclusively through University Patents (Westport, Conn.), is believed to be useful for supercomputers and deep-space communications.

Growing GaAs. Amax's Metal Products Div., moreover, late last year said that at the University of Colorado (Boulder) it is funding a three-year program that will use ultra-high-purity organometallic compounds produced by Amax to grow epitaxial layers of GaAs and other semiconductors.

The relentless race for ever faster computing speeds brought GaAs to the attention of researchers during the 1950s. Its promise was that the crystals would provide the next giant leap in computing power and become the material of choice for computer chips. Much later, researchers discovered a way to grow layers of crystal, by molecular beam epitaxy, and the competition promptly intensified.

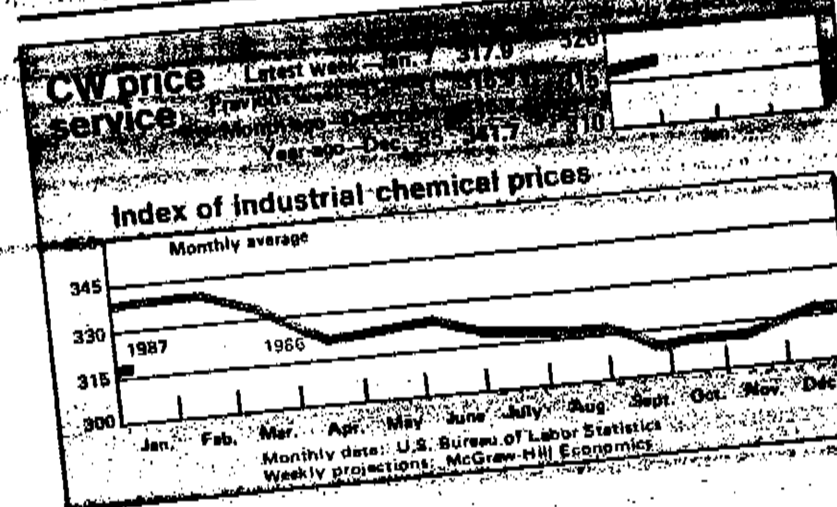
Major industrial nations are racing to be the first to build a "fifth-generation supercomputer" by 1990. As a result, the U.S., Japan and Western Europe are edging closer to commercializing gallium arsenide chips. Success in reaching that goal would change the shape of the market for electronic specialty chemicals.

The U.S. program that's expected to speed up GaAs technology involves monolithic microwave integrated circuits (MMIC). A survey conducted last year by the Defense Dept. indicates that the technology can work, but that it needs a major nationwide push to cut production costs. In fact, the study concluded that it might take an effort similar to that used for the very high speed integrated circuit program.

The contract awarded by the Defense Dept. to GE is a vital part of the U.S. research effort. GE's work involves developing an "intelligent" computerized control system; i.e., a sensor system that monitors the growth of the crystals and feeds the data into a computerized controller that could help correct problems. The contract also calls for using the GE control system on GaAs wafer production lines at Spectrum Technology (Holliston, Mass.)

'Faster than silicon.' Both commercial and defense markets are interested in the potential speed offered by GaAs, which David C. Wang, senior scientist with the Hughes Aircraft Microwave Research Center, calls "an electro movement 5-10 times faster than sil con." The defense market wants GaA because, unlike silicon, it offers natur resistance to defects and flaws broug on by radiation, an important factor space applications.

Space applications for GaAs carry high priority with the U.S. military. deed, in the U.S., an estimated o quarter of the demand for a new ge ation of computer chips made f GaAs crystals will come from the S tegic Defense Initiative (SDI, or " Wars") program. Already, SDI is sl to provide abundant funding for G research, including MMIC. Wang fellow Hughes senior scientist Chang point out that $172 millio already been committed to SDI wo GaAs-MMIC systems through 199 1991, the two think that the Pen



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Tex.; and Port Arthur, Tex. It can produce about 400 million lb/year of ethylene and nearly 1.7 billion lb/year of polyethylene. USI currently buys about 80% of its ethylene requirements.

The Enron purchase would clearly make USI the largest U. S. polyethylene producer, says Robert Bauman, associate director of Chem Systems (Tarrytown, N. Y.). He says that the proposed acquisition would move USI ahead of Union Carbide and Dow Chemical.

More particularly, Bauman adds, USI would become the largest U. S. producer of low-density polyethylene (LDPE), with about 1.7 billion lb/year, and the second-largest domestic producer (behind Phillips Petroleum) of high-density polyethylene (HDPE), with about 1.1 billion lb/year. And at Port Arthur, Tex., USI is building a 220-million-lb/year "swing" plant to produce HDPE and linear low-density polyethylene (LLDPE); it's slated to be onstream by late 1987.

Stability. The proposed acquisition would help stabilize the market by removing a competitor, says one industry watcher. "I think this looks very good for the business," says a marketing executive with a rival producer. "When you see a company willing to invest $600 million, you know it'll have a lot at stake and thus behave responsibly." Some conflicts will need to be resolved, he says. "You have to ask whether USI has now got itself a problem or an opportunity, though, when you see that the pooled resources give it as broad a technology base as anyone in the industry. It's got several low-density and high-density processes, and two rival linear-low processes"—Union Carbide's Unipol process and BP Chemical's gas-phase process.

USI traditionally has been bullish about polyethylene, contends another industry observer, "and there's every reason to believe that it will lead the market quite well." He adds that "Carbide withdrew from the leadership in the business. It has other worries and just wants to sell licenses. Dow has a thinner line of products than USI. None of the polymer producers owned by oil companies dares to come out as the market leader because they're worried about antitrust."

'Okay.' Enron's LDPE range is rated "okay" by one rival, but he says that there may be some gaps in its HDPE line; it reportedly doesn't have film-grade or very high molecular weight blow-molding material. Another source describes the former Chemplex operation in Iowa as being "the best specialty polyethylene producer around."

"You might ask whether the ethylene crackers are in good shape, but either way, [Enron is] the only producer in that Northern-tier market," says an executive of a rival olefins producer. "It's not shoulder-to-shoulder with others on the [Houston] Ship Channel."

As for his company's wine and liquor operations, NDCC's Allen says that they "are not a business we can see ourselves growing or expanding in." E. F. Hutton's John Henry, a leading chemical industry analyst, estimates that NDCC could get $400-500 million for those businesses. NDCC, he says, "is putting its eggs in a basket it thinks it can handle and that it knows best and that has better growth potential down the road." In 1985, the USI petrochemical operations had a net income of $46 million on sales of $730 million. One analyst predicts that those figures will rise this year to $60 million and $800 million, respectively. The parent company has also been gaining assets in the propane-marketing business, having spent $700 million since 1983 to acquire three such companies—Suburban Propane, Pargas and Texgas.

NDCC has no plans to sell off any Enron Chemical assets if the deal goes through, says Allen. He notes that the purchase would give USI a stake in the polypropylene business and remarks that "polypropylene is something we'd been wishing to get into." USI also would get such products as biaxially oriented polypropylene film, color concentrates, and additives for plastic films and molded parts. Enron Chemical also produces Plexar resins, used as adhesives for multilayer packaging. Bauman says Enron Chemical has a high percentage of value-added products, such as copolymer resins. And Eval Co. of America, Enron's joint venture with Japan's Kuraray, will soon start up its 22-million-lb/year ethylene-vinyl alcohol resin plant at Pasadena, Tex.

USI also makes color concentrates, as well as ethylene-vinyl acetate copolymer resins for film and injection-molding appplications and for adhesives. It is a major producer of ethyl alcohol, vinyl acetate monomer and acetic acid.

In the Enron deal, USI would also pick up capacity for ethylene oxide (EO) and ethylene glycol (EG). In late August, Enron agreed to sell its Peak antifreeze unit to Old World Trading (Des Plaines, Ill.), and signed a five-year contract to supply EG to the 21-million-gal/year antifreeze unit Old World is buying at Mapleton, Ill. (*CW, Aug. 27, p. 21*). NDCC's Emery Chemicals division, Allen notes, "purchases a fair volume of EO—up to 50 million lb/year."□

LANGDON BROCKINTON and PETER SAVAGE in Houston

Univar makes a move for No. 1

Bernard: Improving service capabilities.

In a move that would catapult it into the top slot among U. S. industrial chemical distributors (*chart, p. 10*), Univar (Seattle) has agreed to buy McKesson Chemical, the chemical distribution arm of McKesson Corp. (San Francisco), for $76 million. Pakhoed Holding (Rotterdam, the Netherlands)—a multinational operator of oil and chemical terminals—will help finance the purchase in exchange for a 35% stake in Univar.

With the No. 2-ranked McKesson unit under its belt, Univar—whose Van Waters & Rogers (San Mateo, Calif.) arm ranks fourth among U. S. chemical distributors—would have an estimated 9.7% market share in independent chemical distribution in the U. S. Says Univar President James W. Bernard: "By combining the facilities and the talent available in the two organizations, we expect to improve our outstanding service capability for customers and suppliers, and also maintain high standards in the areas of environmental management and product safety."

Stock exchange. Under the terms of the agreement, which is subject to Federal Trade Commission review for antitrust questions, Pakhoed will contribute

$26 million to form a subsidiary that will acquire McKesson Chemical. Then Pakhoed will exchange that subsidiary's stock for 3,053,00 shares, or 35%, of Univar's outstanding common stock.

For Pakhoed, the move is a way to diversify its sources of income in the U.S. in areas related to its primary business, says Hubert Goemans, Pakhoed's corporate secretary. "We are aiming to broaden our international base," says Goemans, "and we are interested in acquiring more of Univar."

The transaction is also consistent with efforts by Univar to concentrate on chemicals and McKesson's plan to become a highly focused distributor of health-care and retail products. McKesson says that after closing the Univar deal, it plans to sell the two remaining components of its Chemicals Group: McKesson Envirosystems, a solvent recycler; and McKesson Environmental Services, a technical laboratory and consulting firm specializing in environmental audits.

Univar's move fits into a bigger trend of consolidation among the 1,000 or so independent U.S. chemical distributors, says Frank Mitsch, a senior consultant with consultants Charles H. Kline & Co. (Fairfield, N.J.), who follows chemical distribution. For example, just this year Ashland Chemical (Columbus, Ohio), currently ranked No. 1 among independent U.S. chemical distributors, picked up distributor Commonwealth Chemical and dry chemicals distributor Eton-Colby. Rod Parsons, vice-president and general manager of Ashland Chemical's Industrial Chemicals and Solvents Div., attributes that trend to "a natural process" of maturing and rationalization in the business.

Tactics. U.S. chemical distributors' aggregate sales, which reached $9.8 billion in 1985, are expected to reach $12.6 billion by 1990, reflecting a 5.2%/year growth rate, according to a recent Kline study (*CW, Sept. 3, p. 5*). But it is the bigger companies that will be positioned to tap that growth. Kline's Mitsch sees the mergers as the distributors' tactic to cope with the increasing costs of complying with stricter right-to-know laws, environmental controls and liability insurance coverage.

One main attraction for Univar may be McKesson's strength in dealing with the environmental and regulatory pressures on the bottom line. "We want to look carefully at how McKesson runs its environmental control and product safety programs, which have worked extremely well for them; they are highly centralized, unlike Univar's business," says N. Stewart Rogers, Univar's chief financial officer. McKesson has attributed part of that success to its three-year-old centralized, computerized, on-line order entry system, which it says has been a boost to its operating efficiency.

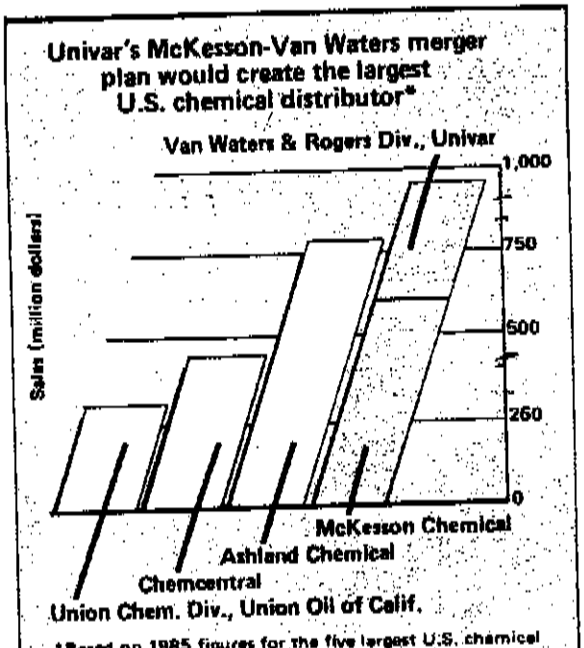
Extension. Another attraction to McKesson, says Rogers, is that it would extend Van Waters & Rogers' geographic reach. Univar has a strong position in the Pacific Northwest, where it started its distribution business in the early 1920s. But with the acquisition of McKesson, Univar "will be dominant in the West," which, as a whole, accounts for about $1.5 billion, says Mitsch. Also, "the product line and customer lists of the two companies are very similar," Rogers says.

Given the similarities of the two businesses, Univar hopes to boost the consolidated distributors' efficiency by trimming excess inventories and product outlets. For some chemical products, a bigger distributor may be a better one. Scott J. Drysdale, a financial analyst in the Seattle office of Birr, Wilson (San Francisco), points out, "Larger distributors have the resources to meet specific needs, such as repackaging and stockpiling products at convenient locations across the country."

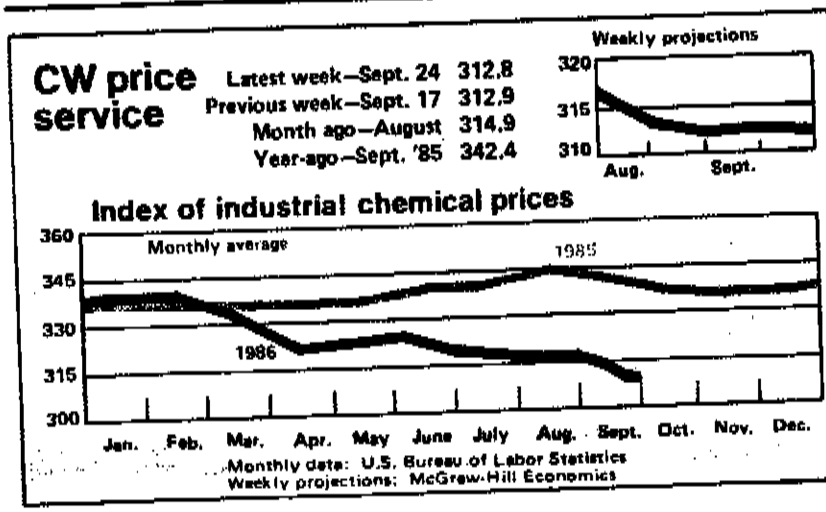
Rogers says that with more capital to work with as a bigger distributor, Univar should ultimately be able to improve the level of service it offers its customers. On the down side, he says, the move "financially leverages us more than we'd like to be in the long term, but we should get over that promptly."

At Univar headquarters, the mood is decidedly upbeat, with hopes that the company may soon be a more formidable contender in the chemical distribution business. With McKesson, says Rogers, "We plan to combine the best of both worlds, both systemwise and peoplewise, to add up to a very strong chemical distribution company." □

SUSAN R. JONES, with Nel Slis in The Hague



*Based on 1985 figures for the five largest U.S. chemical distributors. Source: Charles H. Kline & Co. (Fairfield, N.J.).



BR001066

Chemical Earnings' String of Rises Continues in First Quarter

Profits of 30 largest U.S. chemical firms increased a composite 34%, but income of oil producers fell despite higher chemicals earnings

William J. Storck, C&EN New York

The string of earnings increases for the chemical industry continued in the first quarter of 1987. According to composite results for the 30 largest U.S. chemical companies, profits rose about 34% over the same period in 1986. Earnings also increased at most diversified companies that are producers of chemicals.

However, oil companies that produce chemicals were not so fortunate, as total earnings fell because of the weak oil economy. Nonetheless, their earnings from chemical operations improved over the year-earlier level.

Chemical companies are still reaping the benefits of the streamlining of their operations over the past several years. These include the modernization of plants, realignment of corporate operations such as disposal of minimally profitable businesses, and, probably most important, the reduction of employment rolls and associated employment costs. This streamlining has lowered breakeven points at chemical companies and has provided them, in many cases, with earnings leverage sufficient to boost profits out of proportion to even a slight improvement in operations.

Fortunately the companies are getting slightly higher operating rates as demand increases with the improving economy. Only two major markets for chemicals—fertilizers and oil field chemicals—continue to slide. There are indications of some improvement even in these two sectors, as the farm economy begins to show signs of strengthening and as the price of oil increases enough to justify some domestic oil field activity.

Consequently, output of chemicals and allied products in the first quarter of 1987 improved almost 5% over the year-earlier level, according to seasonally adjusted government data.

Although official labor department statistics show prices still below year-earlier levels, they are strengthening on a quarter-to-quarter basis. And, according to chemical company executives, they are strengthening for certain products. Pricing problems in a period of falling oil and gas prices is an old story for the chemical industry, as chemical customers demand passthrough of any cost break that the producers receive on raw materials. Now that the price of oil has increased, price increases seem to be easier to push through.

Also aiding demand in the first quarter was a steadily improving foreign trade picture. Export demand for U.S. chemicals has been growing while imports into the U.S. have been declining. However, this trend is not as strong as the chemical industry would like. And it is somewhat skewed by large imports of finished goods containing chemicals that are not reflected in the chemical trade figures.

As a result of the increased de-

Chemical industry leaders for the first quarter

Sales: Rank 1987	Sales: Company	Sales: $ Millions	Sales: Rank 1986	Earnings[a]: Company	Earnings[a]: $ Millions	Earnings[a]: Rank 1986	Profitability: Company	Profitability: Earnings as % of sales	Profitability: Rank 1986
1	Dow Chemical	$3015.0	1	Dow Chemical	$246.0	1	International Flavors	15.4%	1
2	Monsanto	1866.0	2	Monsanto	138.0	2	Ethyl	11.9	3
3	Union Carbide	1681.0	3	Union Carbide	66.0	7	Betz Laboratories	11.0	2
4	American Cyanamid	1014.1	4	American Cyanamid	65.1	3	Rohm & Haas	10.8	8
5	W. R. Grace	926.6	5	Rohm & Haas	57.4	6	Loctite	9.7	7
6	Hercules	664.3	7	Hercules	47.7	4	Nalco Chemical	8.6	4
7	National Distillers	656.7	10	Ethyl	46.4	8	Dow Chemical	8.2	11
8	Rohm & Haas	533.1	8	Air Products	41.1	5	Lubrizol	8.1	11
9	Air Products	527.1	9	National Distillers	28.9	12	Air Products	7.8	4
10	B. F. Goodrich	485.6	6	International Flavors	27.6	10	Vista Chemical	7.4	13
							Monsanto	7.4	10

Note: For 30 chemical companies listed on page 22. a After taxes.

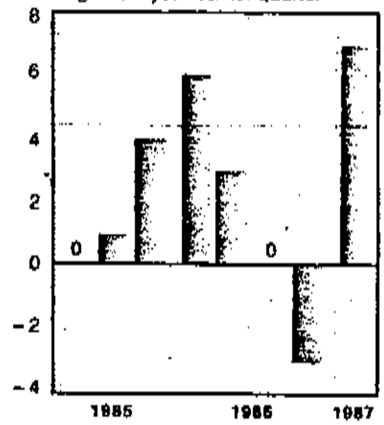
BR001067

Chemical industry 1987 first-quarter results

- Sales climbed 7%
- Earnings jumped 34%
- Profit margins increased
- Production rose 4.7%
- Prices fell slightly

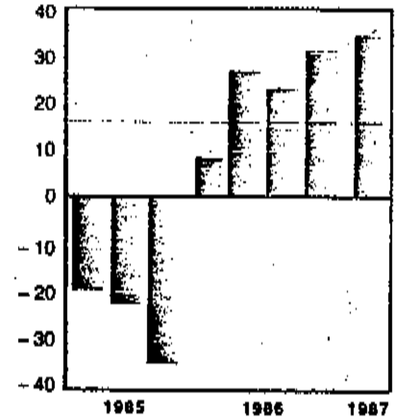
Sales

% change from year-earlier quarter



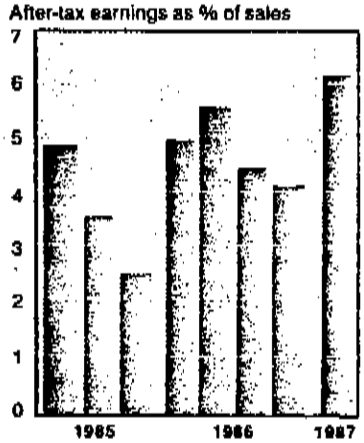
Earnings

% change from year-earlier quarter



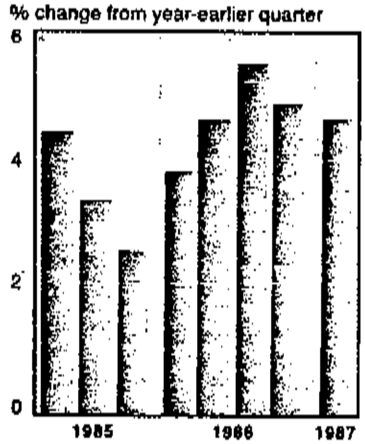
Profit margins

After-tax earnings as % of sales



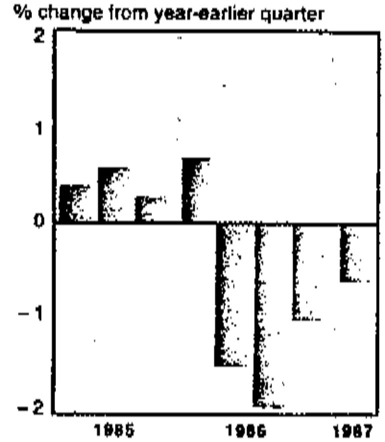
Production

% change from year-earlier quarter



Prices

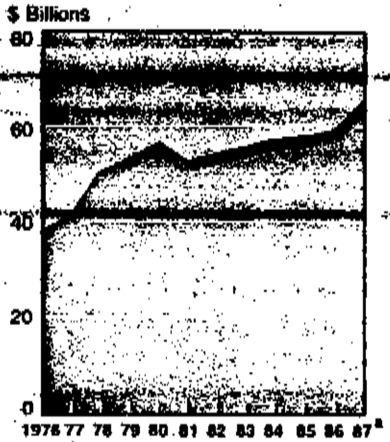
% change from year-earlier quarter



Sales in 1987 will climb about 10% and earnings will increase 25%, boosting profit margins to 5.7%

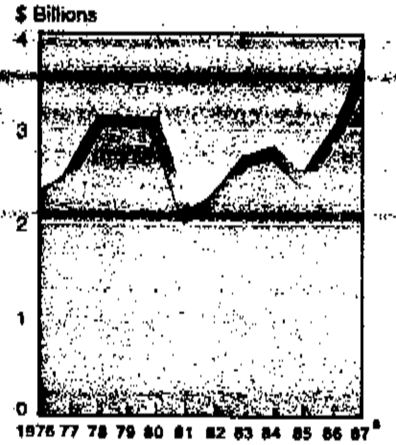
Annual sales

$ Billions



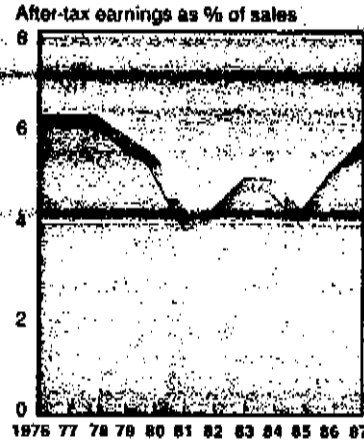
Annual earnings

$ Billions



Annual profit margins

After-tax earnings as % of sales



Note: All sales, earnings, and profit-margin data are based on combined results of 30 companies listed on page 22. a C&EN estimates.

BR001068

Earnings, profit margins increased substantially in first quarter

	First-quarter 1987: Sales ($ millions)	Earnings[a] ($ millions)	Change from 1986: Sales	Change from 1986: Earnings	Profit margin[b]: 1987	Profit margin[b]: 1986	12-month running data: Change from 1986: Sales	Change from 1986: Earnings	Profit margin[b]: 1987	Profit margin[b]: 1986
Air Products[c]	$ 527.1	$ 41.1	6%	5%	7.8%	7.8%	7%	−2%	7.1%	7.8%
American Cyanamid[c]	1,014.1	65.1	10	33	6.4	5.3	10	46	5.6	4.2
Aristech	208.7	13.6	7	84	6.5	3.8	na	na	na	na
Betz Laboratories	88.6	9.7	6	2	11.0	11.3	6	−3	10.2	11.0
Cabot[c]	331.2	19.4	−3	3	5.9	5.5	−11	−6	5.1	4.8
Chemed	91.2	4.3	11	24	4.7	4.2	5	−3	4.5	4.8
Crompton & Knowles	55.8	2.4	4	11	4.2	4.0	−2	8	3.8	3.5
Dow Chemical[c,d]	3,015.0	246.0	10	41	8.2	6.4	−1	560	7.0	1.1
Ethyl[c]	389.0	46.4	3	32	11.9	9.3	3	31	11.6	9.1
First Mississippi	71.3	2.3	9	3	3.3	3.4	−9	−60	1.7	3.8
Freeport-McMoRan	218.8	7.7	37	−16	3.5	5.7	0	−27	7.8	10.7
H. B. Fuller	137.4	3.6	15	31	2.7	2.3	17	38	3.6	3.1
B. F. Goodrich[c]	485.6	3.8	−33	def	0.8	def	−27	−319	1.7	−0.6
W. R. Grace[c]	926.6	11.7	10	75	1.3	0.8	−43	−82	0.5	1.7
Hercules[c]	664.3	47.7	3	5	7.2	7.0	2	45	7.9	5.5
International Flavors	179.0	27.6	21	25	15.4	14.9	23	23	14.0	14.0
International Minerals[c]	456.0	18.6	53	589	4.1	0.9	23	−223	−0.9	0.9
Loctite	89.7	8.7	34	81	9.7	7.2	25	27	9.3	9.1
Lubrizol	272.6	22.1	−1	26	8.1	6.4	−18	−1	7.7	6.3
Monsanto[c]	1,866.0	138.0	7	17	7.4	6.8	2	50	4.6	3.1
Nalco Chemical	191.6	16.5	7	18	8.6	7.8	8	−13	8.1	10.0
National Distillers[c]	656.7	28.9	39	64	4.4	3.7	−3	35	3.5	2.5
Olin[c]	467.7	21.5	4	−20	4.6	6.0	0	−3	3.0	3.1
Pennwalt	276.5	12.4	4	−11	4.5	5.2	7	191	4.5	1.7
Petrolite	63.9	4.0	−16	−31	6.3	7.7	−13	−26	5.8	6.9
Reichhold Chemicals	183.8	2.5	−12	96	1.4	0.6	−13	−209	1.2	−1.0
Rohm & Haas[c]	533.1	57.4	−1	50	10.8	7.1	1	34	9.1	6.8
Union Carbide[c]	1,681.0	66.0	6	74	3.9	2.4	−15	−13	2.5	2.4
Vista Chemical	151.8	11.2	1	25	7.4	6.0	na	na	na	na
Witco[c]	333.9	13.3	−3	−6	4.0	4.1	−6	8	4.8	4.2
Total 15 larger companies	$13,347.3	$824.7	7%	37%	6.2%	4.8%	−9%	18%	4.3%	3.3%
Smaller 15 companies	$ 2,280.8	$148.6	7%	19%	6.5%	5.9%	1%	9%	6.4%	6.0%
GRAND TOTAL[d]	$15,628.1	$973.3	7%	34%	6.2%	5.0%	−8%	16%	4.6%	3.7%

a Earnings from continuing operations, excluding major nonrecurring and extraordinary items. b Earnings as a percentage of sales. c One of the 15 largest companies. d Averages for 12-month running data do not include Dow, where figures include a major nonrecurring item, and Aristech and Vista for which figures are not available. def = deficit. na = not available.

mand and slightly higher prices for some chemical products, earnings and profitability soared in the first quarter for major chemical companies. For the 30 major chemical companies surveyed by C&EN, composite earnings for the quarter amounted to $973 million, up 34% on a sales boost of just 7% from the first quarter of 1986 to $15.6 billion.

Profitability as a result moved up considerably. Profit margins (earnings as a percentage of sales) for the 30 companies averaged 6.2% in the first quarter, up from 5.0% in the year-earlier period.

On a quarter-to-quarter basis, earnings for the 30 companies climbed 51% in the first quarter from a weak fourth-quarter 1986. Sales were up 3.3% on a quarterly basis. The first-quarter profit margin of 6.2% was a vast improvement from 4.2% in the fourth quarter of 1986.

As in the past few quarters, the larger, more diversified companies surveyed outperformed the smaller companies in terms of growth. The smaller firms, however, continued to win out in profitability. For the 15 larger firms surveyed by C&EN, earnings climbed an average of 37% to total $825 million on a sales rise of 7% to $13.3 billion. Earnings for this group soared almost 76% on a sales increase of 7% from the fourth quarter of 1986. Profit margins for first-quarter 1987 for the 15 firms averaged 6.2%, compared with 4.8% in the first quarter of 1986 and just 3.7% in the fourth quarter of that year.

For the 15 smaller companies, first-quarter earnings increased a composite 19% from first-quarter 1986 to $149 million, again on a 7% sales rise to $2.28 billion. Compared with last year's fourth-quarter, sales were down about 12% and earnings fell 14%. Profit margins at the smaller companies averaged 6.5% in the first quarter of this year, compared

Top 50 Chemicals Production Steadied in 1986

Output slipped slightly as organic chemicals rebounded to increase 9.2%; inorganic chemicals, however, continued their poor showing

Marc S. Reisch, C&EN New York

An improved housing market and a good year for auto production helped stabilize total U.S. chemicals output in 1986. Production was down a marginal 0.6% in 1986 compared with last year as indicated by C&EN's Top 50 chemicals group. This marked an improvement over 1985 when total U.S. production dropped 2% compared with the previous year.

The partial recovery due to improvements in housing and auto markets was dampened by the continuing slump in the U.S. farm economy. Also having a negative impact were imports of chemicals, which remained at historic high levels throughout 1986. However, U.S. exports of chemicals increased in 1986 with some help from a decline in the value of the U.S. dollar, which made chemicals cheaper for some foreign buyers.

Rebounding from 1985's poor showing, the organic chemicals component of the Top 50 showed the greatest improvement. Production of those substances increased 9.2% compared with 1985. That was a decided improvement over 1985's production decrease of 1.9% compared with the previous year.

However, like the year before, 1986 was a poor one for inorganic chemicals nearly across the board. Output of the major fertilizer chemicals, including phosphoric acid, urea, and potash, continued to decline substantially. Other big-volume inorganics, such as nitric acid and ammonium nitrate, also showed large decreases. As a result, inorganic chemicals production declined 5.1% in 1986 compared with the previous year. Over the past five years,

About the Top 50 list of chemical products

Government data, trade association figures, and industry estimates all go into preparing C&EN's annual list of the Top 50 chemical products, ranked by production volume. The federal government is relied upon most heavily, but when government figures are not available other sources, primarily trade associations, are used. Industry sources and C&EN estimates are used only when other data are lacking.

Government data are not always accurate—they are only as good as the information that individual companies report. But they are an objective measure of production extending back many years. Therefore, relatively accurate indications of growth can be made on a consistent basis.

At this time of year, C&EN has access only to preliminary reports of production for 1986. When the government and trade associations issue their final reports, the outcome can be changed, sometimes dramatically. As a result, the production figures for earlier years that appear in the table on page 21 are different in some cases from those published in last year's Top 50 report. The final reports also can affect the rankings of chemicals. The 1985 rankings of 33 chemicals listed in the table, for example, are different from those in the similar table published by C&EN a year ago (C&EN, April 21, 1986, page 12).

The list itself covers production figures for the U.S. and includes chemicals produced for export. Candidates for the list include all basic, intermediate, and chemically homogeneous finished products. These range from chemical building blocks like ethylene and propylene to downstream products like vinyl acetate and ethylene glycol.

The roster also includes basic inorganic chemicals, but does not include what C&EN considers to be minerals, such as salt, gypsum, and sulfur. Lime is included because it is processed and has many chemical and industrial applications. Refractory (dead-burned) dolomite is excluded in the calculation of lime production.

In the organics list, such petrochemical feedstocks as ethane, butane, and propane are excluded arbitrarily because they are considered to be products of oil companies and because they have many nonchemical uses.

There are other gray areas besides lime and petrochemical feedstocks. For example, the basic aromatics—benzene, toluene, and xylene—are included. Admittedly, this makes the list less pure chemically.

Production figures are published by the government and trade associations in a variety of units—millions of pounds, thousands of tons, billions of cubic feet, millions of gallons, metric tons. To provide an accurate ranking and to make comparison of production volumes easier, C&EN not only gives production in common units but converts production to billions of pounds as well.

Top 50 chemicals production declined less than 1% last year

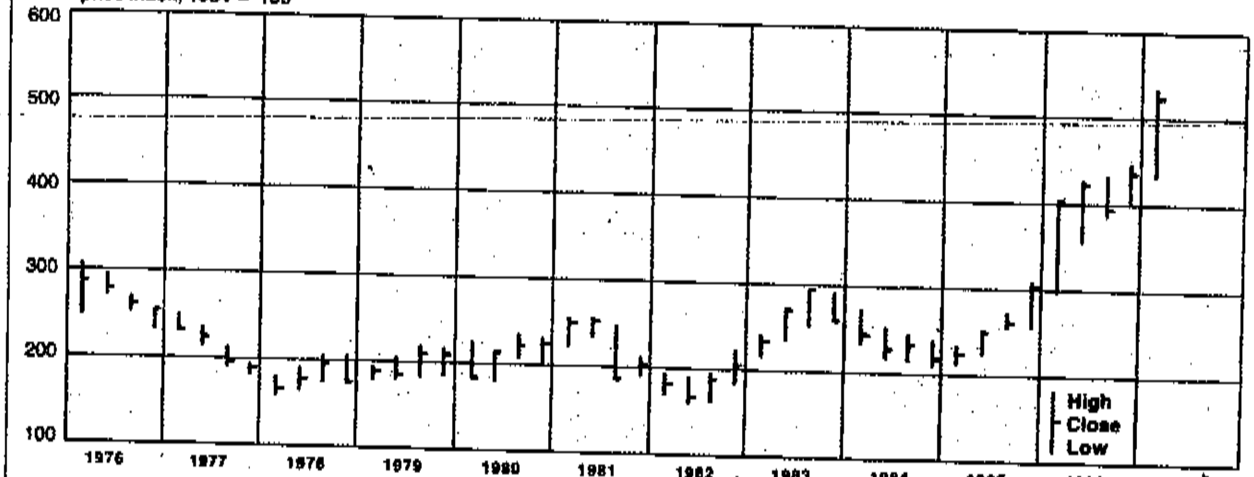
Rank 1986	Rank 1985[a]		Billions of lb 1986	Billions of lb 1985	Common units[b] 1986	Common units[b] 1985	Average annual growth 1985–86	1984–85	1981–86	1976–86
1	1	Sulfuric acid	73.64	79.30	36,822 tt	39,651 tt	−7.1%	−5.1%	−2.0%	0.5%
2	2	Nitrogen	48.62	47.46	671 bcf	655 bcf	2.4	−0.9	6.5	8.8
3	4	Oxygen	33.03	32.53	399 bcf	393 bcf	1.5	2.1	−1.5	0.4
4	6	Ethylene	32.81	29.85	32,811 mp	29,847 mp	9.9	−4.9	2.2	3.9
5	5	Lime[c]	30.34	31.60	15,172 tt	15,800 tt	−4.0	−1.2	−4.3	−2.3
6	3	Ammonia	28.01	34.64	14,005 tt	17,319 tt	−19.1	3.8	−6.0	−1.8
7	7	Sodium hydroxide	22.01	21.79	11,007 tt	10,893 tt	1.0	−0.2	1.1	0.5
8	9	Chlorine	20.98	20.79	10,489 tt	10,395 tt	0.9	−2.8	−0.6	0.1
9	8	Phosphoric acid	18.41	21.04	9,206 tt	10,518 tt	−12.5	−7.5	−1.6	1.5
10	11	Propylene	17.34	14.89	17,343 mp	14,887 mp	16.5	−4.3	5.2	5.6
11	10	Sodium carbonate[d]	17.20	17.19	8,600 tt	8,597 tt	0.0	1.0	0.8	5.1
12	15	Ethylene dichloride	14.53	12.10	14,529 mp	12,101 mp	20.1	13.0	7.8	6.1
13	12	Nitric acid	13.12	14.73	6,562 tt	7,364 tt	−10.9	−4.7	−6.3	−1.7
14	14	Urea[e]	12.06	13.36	6,029 tt	6,678 tt	−9.7	−10.2	−5.6	4.4
15	13	Ammonium nitrate[f]	11.11	13.55	5,556 tt	6,776 tt	−18.0	−5.2	−8.9	−2.5
16	17	~~Benzene~~ No!!	10.23	9.39	1,389 mg	1,275 mg	8.9	−3.3	1.2	−0.3
17	20	Ethylbenzene	8.92	7.39	8,915 mp	7,386 mp	20.7	−2.3	2.7	4.4
18	18	Carbon dioxide[g]	8.50	9.25	4,252 tt	4,623 tt	−8.0	1.3	2.3	8.0
19	16	Vinyl chloride	8.42	9.46	8,415 mp	9,463 mp	−11.1	55.5	4.1	4.0
20	19	Styrene	7.84	7.62	7,838 mp	7,622 mp	2.8	−1.1	3.3	2.2
21	21	Terephthalic acid[h]	7.68	6.49	7,684 mp	6,490 mp	18.4	9.8	4.3	0.6
22	27	Methanol	7.33	5.00	7,327 mp	5,003 mp	46.5	−38.9	−3.1	1.6
23	22	Hydrochloric acid	5.97	5.61	2,983 tt	2,807 tt	6.3	2.7	3.0	1.6
24	24	Ethylene oxide	5.94	5.43	5,943 mp	5,430 mp	9.4	−4.7	2.9	3.6
25	22	Formaldehyde[i]	5.89	5.61	5,885 mp	5,606 mp	5.0	−3.6	0.6	0.8
26	26	Toluene[j]	5.82	5.07	802 mg	699 mg	14.7	−4.0	−1.2	−2.2
27	25	Xylene	5.55	5.31	771 mg	738 mg	4.5	−13.6	−2.6	0.7
28	30	Ethylene glycol	4.76	4.18	4,759 mp	4,178 mp	13.9	−13.4	2.8	3.6
29	28	*p*-Xylene	4.67	4.78	4,669 mp	4,779 mp	−2.3	12.1	0.6	4.8
30	29	Ammonium sulfate	4.17	4.19	2,086 tt	2,093 tt	−0.3	1.3	−0.9	0.4
31	31	Cumene	3.70	3.35	3,695 mp	3,345 mp	10.5	−10.9	2.2	3.1
32	32	Acetic acid	2.93	2.90	2,931 mp	2,897 mp	1.2	10.6	−0.9	1.8
33	34	Phenol[k]	2.92	2.78	2,921 mp	2,777 mp	5.2	−3.9	2.5	3.3
34	39	Butadiene[l]	2.59	2.34	2,593 mp	2,340 mp	10.8	−4.6	−2.8	−3.0
34	35	Carbon black	2.59	2.57	2,585 mp	2,571 mp	0.5	−11.1	−1.1	−1.6
36	33	Potash[m]	2.58	2.84	1,169 tmt	1,288 tmt	−9.2	−17.6	−11.5	−6.0
37	36	Aluminum sulfate[e]	2.52	2.54	1,258 tt	1,268 tt	−0.8	12.3	−0.6	0.5
38	37	Propylene oxide	2.48	2.40	2,480 mp	2,400 mp	3.3	34.9	6.1	3.1
39	38	Acrylonitrile	2.31	2.35	2,314 mp	2,346 mp	−1.4	5.7	3.0	4.3
40	40	Vinyl acetate	2.25	2.11	2,249 mp	2,112 mp	6.5	−4.3	3.0	4.3
41	41	Methyl *tert*-butyl ether[n]	2.24	1.89	2,237 mp	1,891 mp	18.3	37.4	24.1	nm
42	44	Cyclohexane	2.07	1.66	2,071 mp	1,657 mp	25.0	−16.9	2.6	−0.5
43	42	Acetone	1.94	1.79	1,936 mp	1,788 mp	8.3	−4.0	−2.0	0.4
44	43	Titanium dioxide	1.83	1.72	917 tt	860 tt	6.6	3.0	3.8	2.5
45	48	Sodium silicate	1.57	1.44	786 tt	721 tt	9.0	−3.9	0.4	0.5
46	46	Calcium chloride[o]	1.56	1.88	780 tt	940 tt	−17.0	−10.4	−3.2	−4.2
47	45	Sodium sulfate[p]	1.55	1.65	775 tt	827 tt	−6.3	−5.2	−6.9	−4.5
48	47	Adipic acid	1.52	1.45	1,522 mp	1,453 mp	4.7	4.5	2.0	0.0
49	50	Isopropyl alcohol	1.28	1.24	1,275 mp	1,235 mp	3.2	−11.4	−5.2	−4.1
50	49	Sodium tripolyphosphate	1.27	1.25	634 tt	625 tt	1.4	−7.4	−1.8	−1.3
		TOTAL ORGANICS	188.00	172.16			9.2%	−1.9%	1.8%	2.9%
		TOTAL INORGANICS	350.60	369.56			−5.1%	−2.0%	−1.5%	0.8%
		GRAND TOTAL	538.60	541.72			−0.6%	−2.0%	−0.5%	1.5%

a Revised. b tt = thousands of tons, bcf = billions of cubic feet, mp = millions of pounds, mg = millions of gallons, tmt = thousands of metric tons. c Except refractory dolomite. d Natural and synthetic. e 100% basis. f Original solution. g Liquid and solid only. h Includes both acid and ester without double counting. i 37% by weight. j All grades. k Synthetic only. l Rubber grade. m K_2O basis. n Production data for earlier years unavailable. o Solid and liquid. p High and low purity. nm = not meaningful.

BR001071

Prices of chemical stocks surge higher in recent bull market

Stock price index, 1954 = 100[a]



a C&EN weighted stock price index of American Cyanamid, Dow Chemical, W. R. Grace, Hercules, Monsanto, Rohm & Haas, and Union Carbide; weighted according to number of shares outstanding for each company. b First quarter.

SHIPMENTS: Like industry as a whole, chemicals showed no growth in 1986

$ Billions	1986[a]	1985	1984	1983	1982	1981	1980	1979	1978	1977	1976	Annual change 1985–86	Annual change 1976–86
All manufacturing industries	$2347.6	$2341.2	$2274.9	$2047.4	$1910.1	$1994.6	$1851.0	$1727.2	$1523.4	$1358.4	$1185.6	0%	7%
Chemicals and allied products	214.0	214.3	211.8	190.2	172.8	175.1	161.6	147.7	129.8	118.2	104.1	0	7
Industrial chemicals[b]	70.4	71.6	68.7	59.1	55.8	60.7	56.4	52.3	44.8	41.5	35.6	−2	7
Drugs, soap, and toiletries	61.8	56.1	53.9	50.4	48.6	44.1	41.9	36.7	34.7	30.6	27.8	10	8
Petroleum and coal products	143.0	194.0	200.6	191.6	206.4	220.3	198.7	148.4	103.9	97.5	82.3	−26	6
Rubber and plastic products, nec	47.7	48.2	52.1	50.3	50.2	46.5	47.3	46.8	43.2	39.6	31.8	−1	4
Paper and allied products	109.4	97.6	95.9	85.1	79.0	79.5	72.6	65.2	57.0	52.1	48.2	12	9

a Preliminary. b excluding pigments. nec = not elsewhere classified. Source: Department of Commerce

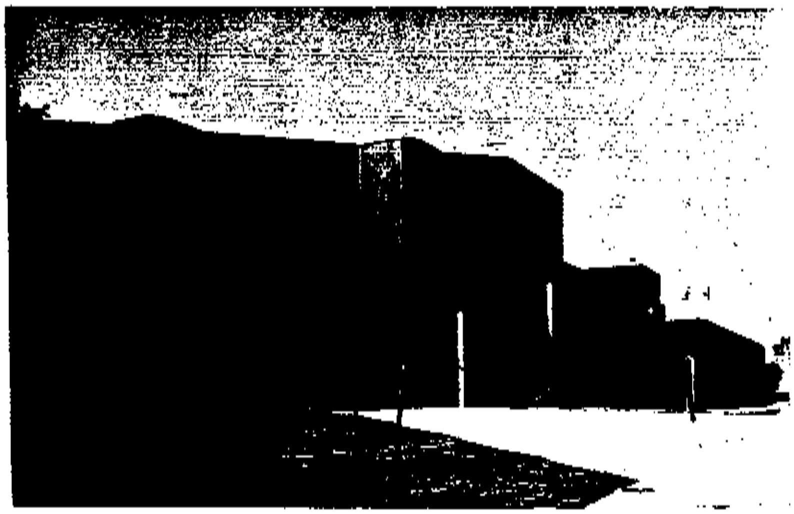
PRICES: Drugs and paint buck an overall decline for chemical products

Producer price indexes,[a] 1967 = 100	Annual average 1986[b]	1985	1984	1983	1982	1981	1980	1979	1978	1977	1976	Annual change 1985–86	Annual change 1976–86
All commodities	299.8	308.7	310.3	303.1	299.3	293.4	268.8	235.6	209.3	194.2	183.0	−3%	5%
Industrial commodities	312.1	323.8	322.8	315.8	312.3	304.1	274.8	236.5	209.4	195.1	182.4	−4	6
Chemicals and allied products	299.7	303.2	300.8	292.9	292.4	287.6	260.3	222.3	198.8	192.8	187.2	−1	5
Industrial chemicals	322.5	338.3	341.3	342.9	353.0	363.3	324.0	264.0	225.6	223.9	219.3	−5	4
Prepared paint	281.2	276.8	272.5	264.7	262.9	249.8	235.3	204.4	192.3	182.4	174.4	2	5
Paint materials	318.0	333.7	329.7	305.6	304.6	300.1	273.9	241.2	212.7	206.9	189.8	−5	5
Drugs and pharmaceuticals	272.8	256.3	240.0	226.2	210.1	193.5	174.5	159.4	148.1	140.5	134.0	6	7
Fats and oils, inedible	215.1	295.3	371.4	283.7	267.1	295.6	298.0	376.7	315.8	279.0	249.9	−27	−1
Agricultural chemicals and chemical products	275.5	281.3	284.8	280.7	292.7	285.0	257.1	214.4	196.4	187.8	188.4	−2	4
Plastic resins and materials	295.9	304.7	308.6	290.2	283.3	289.2	279.2	235.9	199.8	195.7	194.0	−3	4
Other chemicals and allied products	285.9	284.2	277.6	273.7	269.8	254.2	224.5	191.8	181.8	175.7	170.7	1	5
Rubber and plastics products	246.0	245.9	246.8	243.4	241.6	232.6	217.4	194.3	174.6	167.6	159.2	0	4

a Formerly called "wholesale price indexes." b Preliminary. Source: Department of Labor

BR001072

Shipments may decline, but value may surpass $10 billion this year



Civic center with steel panels coated with Glidden's fluorocarbon paint

Last year was a banner year for paint production. U.S. manufacturers shipped a record 967 million gal of paint and coatings worth $9.68 billion, according to the Department of Commerce. The 3% growth in shipments in 1986 and the 5.4% growth in the value of those shipments in 1986 is no small accomplishment given the large size of the paint and coatings market.

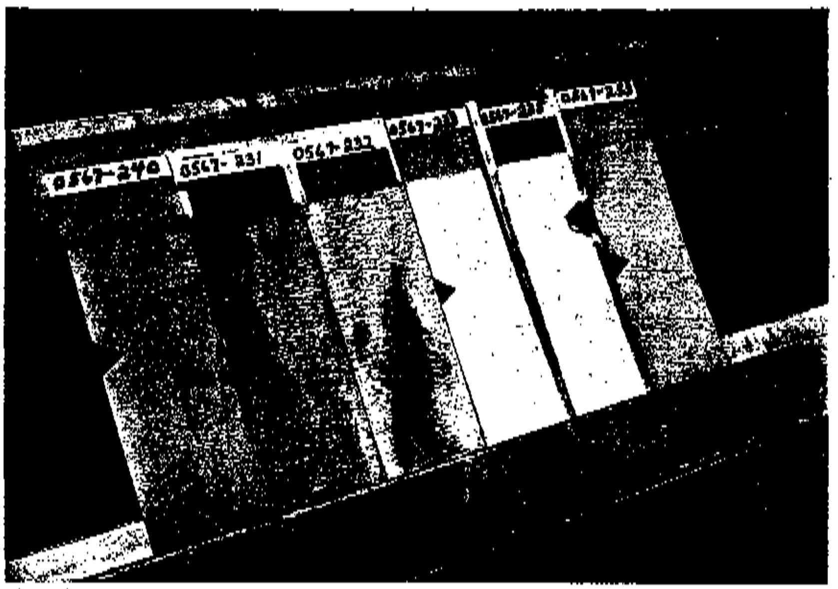
There is more than a little life left in a business that has been characterized as mature, highly cyclical, and largely dependent on volume markets. Because of a continuing ebullient economy, 1986 shipments increased in every category served by paint and coatings manufacturers: architectural coatings, product coatings sold to original equipment manufacturers (OEM), and special-purpose coatings.

Preliminary government figures show, however, that the pace of U.S. production slowed in the first half of 1987. Real gross national product declined from an annual growth rate of 4.4% for the first quarter to 2.5% in the second quarter. The slowdown has already affected 1987 paint and coatings shipments. Unless the economy along with the paint industry experiences an unusually strong second half, the industry will not only be hard pressed to match last year's shipment figures, but also will be unlikely to surpass the billion-gallon shipment mark.

For the first six months of this year, shipments declined 2.7% to 509 million gal compared with the first six months of 1986. Shipments of architectural coatings, at 257 million gal for the first six months of 1987, remained virtually unchanged from the same period in 1986, whereas those of product coatings increased a slim 2.4% to 179 million gal. And shipments of special-purpose coatings slid 20% to 72 million gal.

However, the value of paint shipments in the first six months increased 6.8% to $5.3 billion, compared with the like period in 1986. And at this rate of increase, they may finally crack the elusive $10 billion mark. The value of architectural coatings rose 4.4% to $2.2 billion, and product coatings increased in value an impressive 13% to $2.0 billion. Special-purpose coatings grew a marginal 1.1% to $1.0 billion.

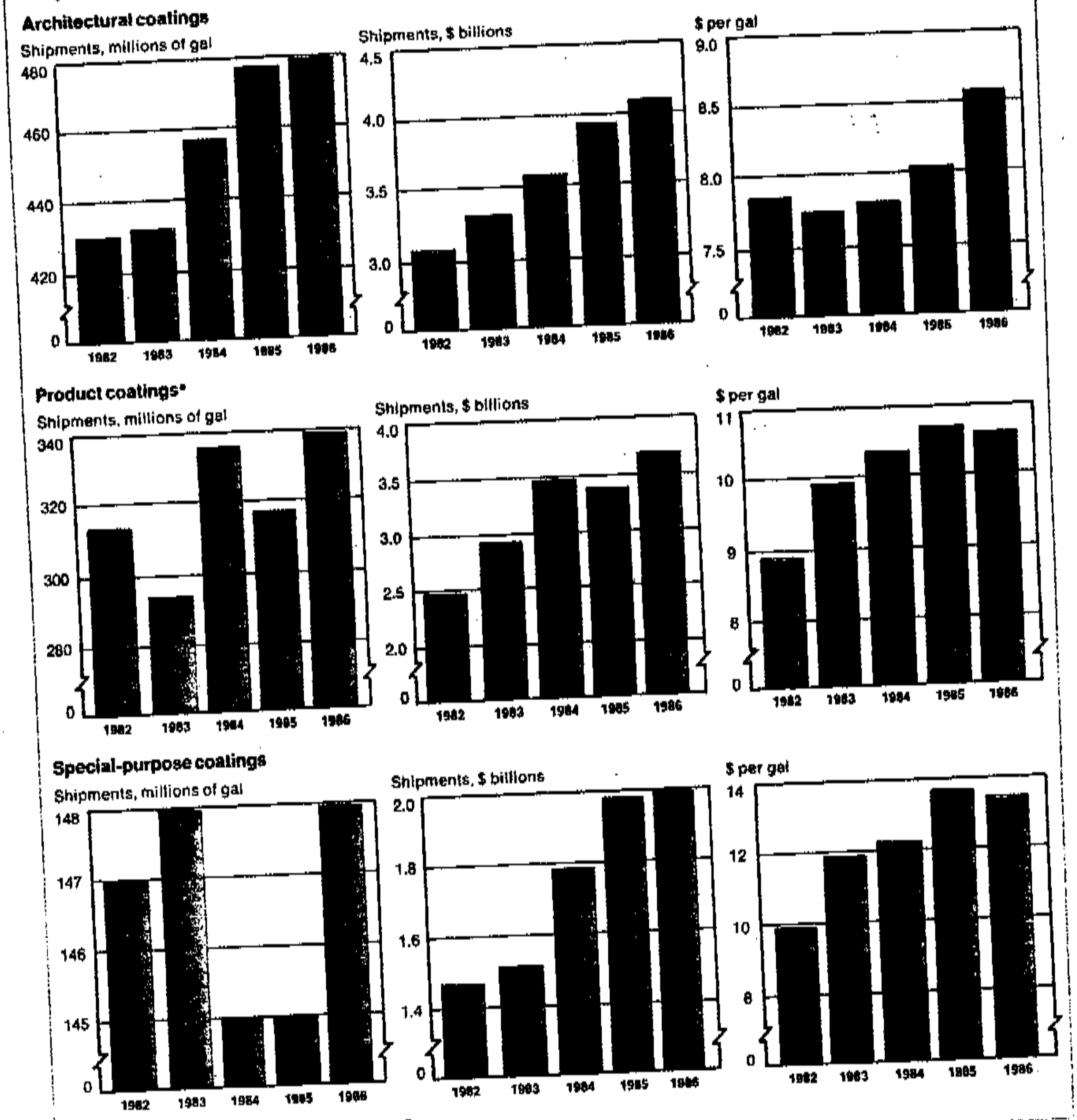
This year will not be so good a year as 1986 for the paint industry, forecasts Business Trend Analysts (BTA), Commack, N.Y., a market research firm. However, it does predict an increase in the value of shipments. In a study of the paint and coatings industry it intends to publish at the end of this month, the Long Island-headquartered consultant looks for a 4.5% increase in 1987 sales of paint and coatings, but notes that "slow price gains in the architectural coatings segment, coupled with slackening durable



Panels coated with different paints that have been exposed for 16 years in subtropical Florida at a 45° angle facing south. Top 2 inches or so of the panels were covered by the rack and represent the original colors of the panels. Blue panels on each end, coated with Glidden fluorocarbon paints, show how such coatings resist color change when exposed to hot sun

BR001073

Shipments rise in all categories, but prices up only for architectural coatings



* Original equipment manufacturers. Source: Bureau of the Census

goods output, portend a lackluster 1987 market performance."

A 1986 profile of the industry based on Bureau of the Census figures shows that architectural coatings, which include both interior and exterior house paints, continue to make up almost half of all paint sold in the U.S. Product coatings for the original equipment market, which includes automotive and appliance coatings, accounts for some 35% of U.S. paint volume. And special-purpose coatings comprise about 15% of total paint shipments. That category includes large-volume maintenance items, automotive refinishing, and coil coatings.

Shipments of architectural coatings in 1986 increased marginally from 1985 to 480 million gal. However, the value of shipments continued to improve, up 7.6% last year to $4.12 billion, and the unit price

BR001074

Three main paint categories break down this way

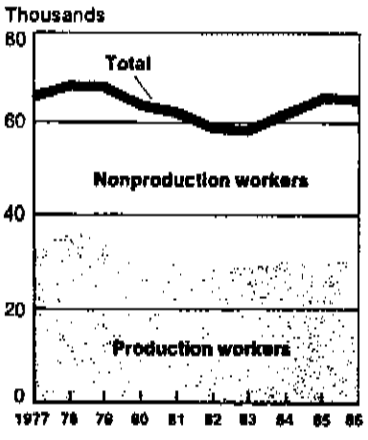
Architectural coatings
Exterior house paints
Interior house paints
Undercoaters, primers & sealers
Varnishes
Stains
Marine
Film, paper & foil
Pipe
Toys & sporting goods
Miscellaneous consumer & industrial products

Product coatings[a]
Wood furniture & fixtures
Automotive
Metal containers
Machinery & equipment
Factory-finished wood
Metal furniture & fixtures
Sheet, strip & coil
Nonautomotive transportation
Appliances
Electrical insulation

Special-purpose coatings
Automotive & machinery refinishing
High-performance maintenance
Traffic paint
Bridge maintenance
Aerosols
Swimming pool coatings
Arts & crafts
Metallic coatings
Multicolored coatings

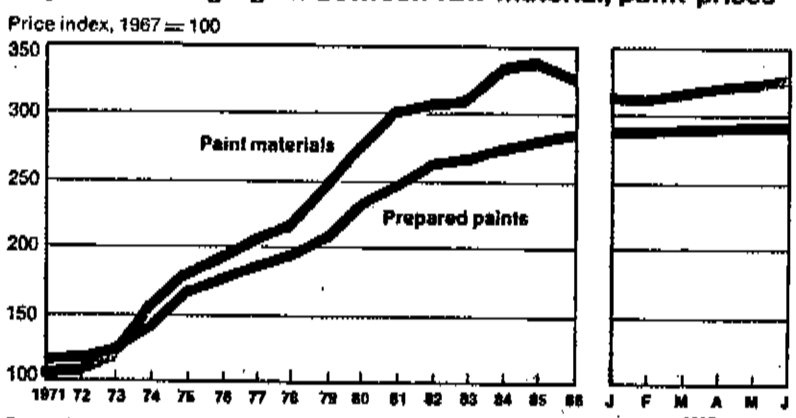
a Original equipment manufacturers. Source: SRI International

Paint production worker employment rose in 1986



Source: Department of Labor

Gap is widening again between raw material, paint prices



Source: Department of Labor

per gal increased 6.7% to $8.56. Despite its reputation as a lackluster category, architectural coatings was the only segment to show an increase both in shipments and value in 1986. Analysts suggest that the decline in interest rates along with a pickup in housing starts has spurred demand for more single family homes for the baby boomers, and that this trend will continue into 1987.

Product coatings shipments for the OEM sector increased 6.9% in 1986 to 339 million gal. Though the value of product coatings shipments rose 5.6% last year from 1985, unit price declined 1.3% to $10.53 per gal.

Similarly, special-purpose coatings shipments and total value of those shipments increased, but unit value declined in 1986. According to the government figures, special-purpose coatings shipments increased 2.1% to 148 million gal in 1986, and the value of those shipments increased 1.0% over 1985. However, unit price declined 1% to $13.47.

Areas such as water treatment equipment and hazardous waste treatment equipment will lead an increase in demand for paint, according to Jay R. Willner, president of WEH Corp., San Francisco-based market analyst concentrating on certain industrial and special-purpose coatings markets. The market for bridge and highway coatings also likely will show a strong increase in demand, says Willner, as many of the nation's busiest byways are in serious need of attention. Higher-priced, long-lasting coating systems will be the answer, he adds.

Willner says that demand for marine coatings is down as new marine construction in this country is "dead," and offshore oil drilling activities are flat.

One major trend in the maintenance coatings business is a movement to farm out the maintenance of large petroleum refining, petrochemical, and pulp and paper plants to specialists. In this case a supplier takes responsibility for assuring a plant is maintained according to ordinances, sand blasting and coating equipment and plant as necessary, Willner says. Leaders in this new marketing approach to plant coatings and maintenance include Du Pont and PPG Industries, he says.

Overall, the paint business remains a highly competitive one despite the litany of mergers and acquisitions that have tended to concentrate it into fewer hands. The past few years have seen a number of changes. For instance, Imperial Chemical Industries purchased Glidden, BASF purchased Inmont, Du Pont sold its Lucite line of paints to Clorox, and Valspar bought Mobil's U.S. and Canadian coatings operations.

Despite the numbers of purchases and acquisitions, industry sources report there still are about 1000 paint manufacturers in the U.S. (down from about 1500 in 1963, says one

BR001075

source). Because of the competition, product advances do not readily translate into huge profits because competitors quickly catch up with advances of their own. Pricing is frequently the manufacturer's key to a larger share of the market and thus greater profits. And in a bid for greater share of market, manufacturers have tempered price increases even though raw material costs are increasing much faster.

According to the Department of Labor, price indexes covering both paint materials and prepared paints for the first six months of 1987 show that, after a brief hiatus in 1986, prices of raw materials continue to increase faster than prices of prepared paint. The index for paint material prices rose 5.4% from January to June 1987 to 332.5 (1967 = 100), reflecting recent increases in polymers and runups in the price for titanium dioxide. However, during the same time, the index of prepared paint prices has increased only 0.09% to 284.1 (1967 = 100).

In the past, the gap between the two indexes widened steadily as manufacturers in a competitive market held prices below their increases in raw material costs. In 1979, the index for raw material prices swung up decisively and manufacturers again held prepared paint prices pretty much in check. For 1979, the index for raw material prices increased 13% from the previous year to 241.2, whereas that for prepared paint prices rose only 5.7% to 204.4.

Even though steady raw material price increases between 1980 and 1985 averaged 4.1% and prepared paint price increases during the same period averaged only 3.3%, the raw material price index dropped in 1986 to 318, down 4.9% from the previous year. Prepared paints manufacturers took advantage of the improved situation to take a modest increase. Last year the prepared price index increased 1.6% to 381.2.

The dip in raw materials prices in 1986, explains Business Trend Analysts (BTA), stems from the decline in the price of crude oil from which paint resins, solvents, linseed oil, and tall oil are derived. The drop in raw materials prices did not bring about a wave of competitive price cuts, BTA adds, because of increased industry R&D expenditures. These increased expenditures were mandated by government regulation in the disposal of solvent waste and pollution control.

To their credit, paint manufacturers have been able to produce more paint as the level of employment has slowly declined. According to Department of Labor statistics, the total number of production and nonproduction paint industry workers declined 3.9% to 63,400 between 1977 and 1986. The number of workers in the industry was the same in 1986 when manufacturers produced 967 million gal of paint as in 198: when paint manufacturers mad only 870 million gal.

From 1977 to 1986, the number o nonproduction employees of pain firms rose 5.8% to 32,700 as the companies boosted their marketing efforts. Employment of nonproductio workers peaked in 1985 at 33,600.

The industry achieved its recor 1986 output with 2.7% fewer nonproduction workers than in 1985. A 2.3% rise in production worker employment to 30,700 helped it realize a 3% improvement in shipment in 1986 to 967 million gal.

Automotive refinishing poses huge and changing market

By one estimate, paint and auto body shops do an astounding $10 billion in collision repair and refinish work annually. But this business is growing only 1 to 2% annually, most industry observers say.

Few paint companies heavily involved in automotive paints, however, can ignore this enormous market, which in 1986 consumed some 66 million gal of paints, about 45% of the category defined as special-purpose coatings by the Department of Commerce. These paints had a value of about $895 million.

The automotive refinish paint in-


Harrick: urethane paint use will grow

dustry itself is slowly changing First, paint makers have introduce formulations and refinish system compatible with the latest base-coat/ clear-coat technology that is becoming more prevalent among origina equipment manufacturers (OEM) Second, many manufacturers hav only recently announced isocyanate free paint formulations that promise the performance of isocyanate containing paints. Third, althoug emissions of volatile organic compounds are mostly a concern at th OEM level, paint makers are thinking now about ways to address th problem at auto body shops if an when they become an issue. (Volatile organic compounds are pollutants that may foul the air as solvent paint formulations dry.)

Statistics on the automotive refinish market generally includ truck and bus repair as well. However, passenger cars account for 75% of sales in this market, industry sources indicate. Major suppliers t automotive refinish jobbers and ultimately to the auto body shops include primary OEM suppliers PPC Industries, Du Pont, and the Inmon division of BASF. Other paint makers, such as Sherwin-Williams an the Sikkens division of Akzo Coatings, also have secured niches i the automotive refinish market.

All these suppliers are watching closely to see if U.K.-based Imperia Chemical Industries, which recent-

chemicals
CURRENT ANALYSIS

STANDARD & POOR'S INDUSTRY SURVEYS

 USPS No. 517-780

JULY 16, 1987 (Section 3) Replaces Current dated April 16, 1987

Industry rebound to continue in '87

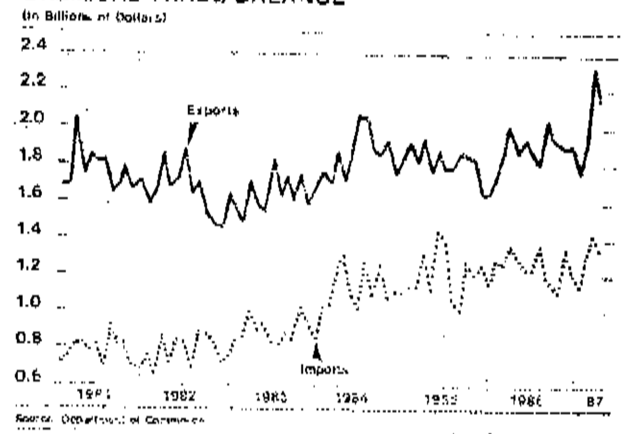
The chemical industry should have a very good year in 1987, its second consecutive one after 1985's poor performance. For 1987 as a whole, we are forecasting that the industry will post profit gains of 15%–20% on a modest sales increase. Several factors are aiding industry results, including stronger export demand due to the weaker U.S. dollar, rising selling prices, higher utilization rates in key product lines, and continued benefits from the restructuring and cost-cutting actions taken over the past few years. Some recent developments have been less positive, however. Raw material feedstock costs have risen along with higher world crude oil prices, and the surge in interest rates seen this spring has dampened the important housing market. Auto sales have declined as sales incentives have lost their effectiveness. Lastly, despite some recent signs of improvement in the farm economy, a major recovery in the depressed fertilizer market is not expected for some time.

In the first quarter of 1987, the chemical industry performed well, continuing a trend that has been in evidence since the start of 1986. According to a *Business Week* survey of first-quarter results, a group of 32 chemical companies saw profits rise 44% on a 6% sales gain. Increased production, very high operating rates, stronger export demand and foreign sales, firmer selling prices, somewhat better agricultural results, and continued benefits of the restructuring programs undertaken in 1985 were all highly advantageous to the industry. Twenty-four companies posted improved earnings *vis-à-vis* first-quarter 1986, while the rest incurred modest profit declines. The year-to-year comparisons for the remaining three quarters of this year are not likely to be as impressive as those seen in the first quarter because the industry's performance in 1986 improved as the year progressed.

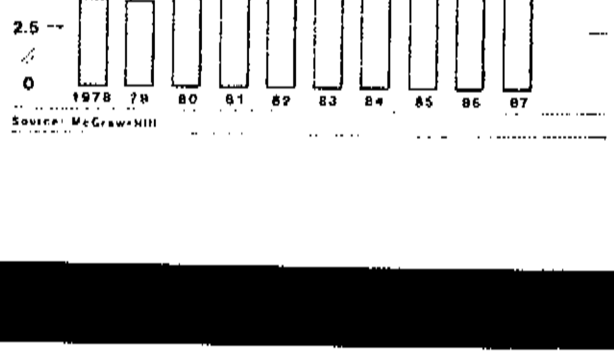
S&P expects exports to be the engine driving the economy in 1987, with their strength attributed mainly to the U.S. dollar's weakening over the past two years. Real GNP is projected to rise 2.8% in 1987, versus a 2.5% gain in 1986; growth in 1988 is predicted to be 2.6%. Export gains will help industrial production increase an estimated 2.5% this year, compared with the 1.0% growth seen in 1986. Some slowing in important end markets is expected, however, with housing starts projected at 1.65 million in 1987, versus the 1.82 million of 1986. The slide should continue into 1988, when 1.56 million units are expected to be started. Growth in consumer spending has slowed greatly from the torrid pace of the past few years, partly due to high consumer debt levels. Automobile sales are forecasted to total 10.5 million

Richard O'Reilly, C.F.A., Chemicals Analyst

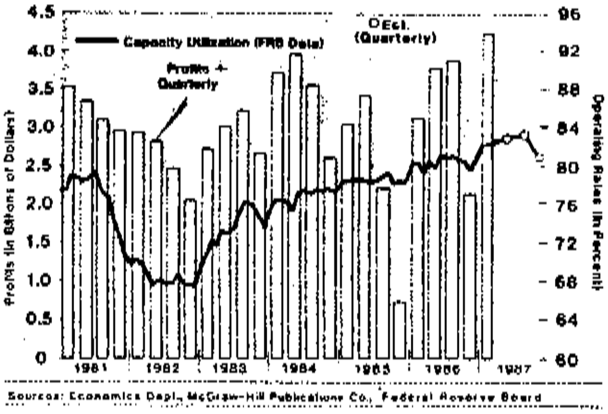
CHEMICAL TRADE BALANCE



CHEMICAL INDUSTRY R & D AS A % OF SALES

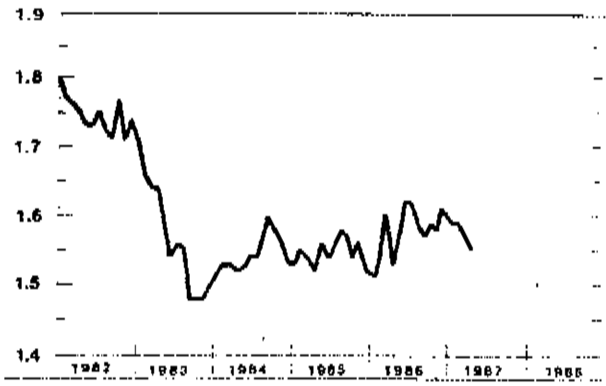


CHEMICAL INDUSTRY OPERATING RATES & PROFITS



Sources: Economics Dept., McGraw-Hill Publications Co.; Federal Reserve Board

INVENTORY-TO-SALES RATIO



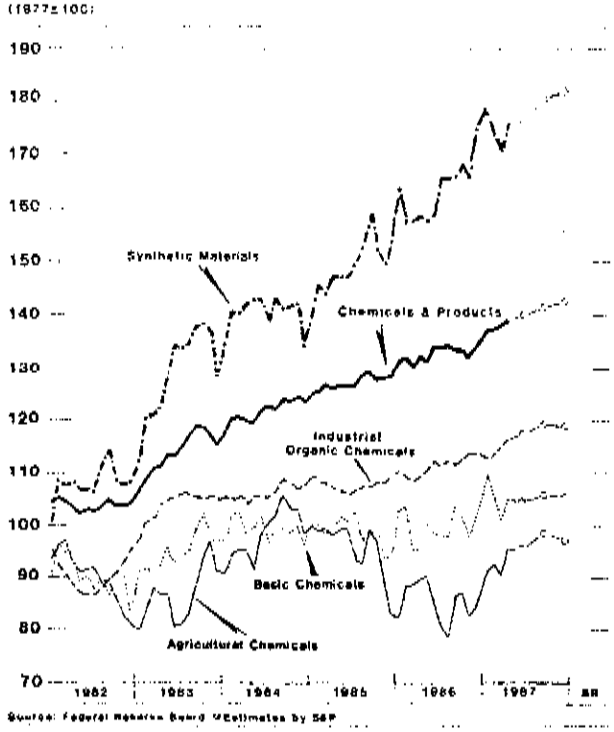
Source: Department of Commerce

this year—which would be down almost 10% from the 11.6 million of 1986—before rebounding slightly next year. Even excluding the reduction in auto sales, however, consumer spending in 1987 is anticipated to grow at a lesser rate than in 1986.

Good production gains expected

We are now projecting that overall chemical and plastics output will rise more than 5% this year, versus the 4.6% increase seen in 1986, primarily due to growth in chemical exports. In April 1987, the Federal Reserve Board (FRB) production index for chemicals and products reached a record 139.0 (1977 = 100), up 4.7% from the year-earlier level. The synthetic materials subindex was up 10%, year to year, with continued strength in plastic materials and somewhat better output of man-made fibers. Reflecting strong demand for such derivative products as plastics, fibers,

CHEMICALS & PRODUCTS-PRODUCTION INDEX
(1977=100)



Source: Federal Reserve Board

detergents, and pharmaceuticals, industrial organic chemicals production was up 7.0% from the April 1986 level. These two groups are expected to continue growing strongly, but the rate may slow a bit as key consumer markets remain sluggish. Output of basic chemicals (chlorine & alkalies, industrial gases, pigments, and inorganic chemicals) was up almost 10%, year to year, reflecting good gains in industrial gases, chlor-alkalies, and inorganics. The last, which has trended in a wide range for the past year, still remains at a depressed level due to poor demand for fertilizer, a leading end market for inorganics. Overall, basic chemical production may rise 6% this year, versus a nearly flat performance in 1986.

Production of chemical products (drugs & medicine, soaps & toiletries, and paint subindexes) was unchanged, year to year, in April; lower paint output and flat soap production offset a gain in drugs. Soap output is expected to pick up for the rest of the year.

The agricultural chemicals index was up 6.4%, year to year, in April; at 95.4, it stood at the highest level since October 1985. Part of the gain is due to a pickup in fertilizer markets in early 1987, following 1986's very depressed levels. The improvement reflected better export demand and a shift in domestic shipments from late 1986 into 1987, as buyers waited to see how the 1987 farm economy would shape up. Planted crop acreage this year will be well below 1986's total, however, with corn (the major use for fertilizer and pesticides) down about 11%, as result of government programs to reduce grain production. Despite a run-up in commodity prices earlier this year, we predict no change in corn acreage for the next two years and, thus, no fundamental improvement in agrichemical demand.

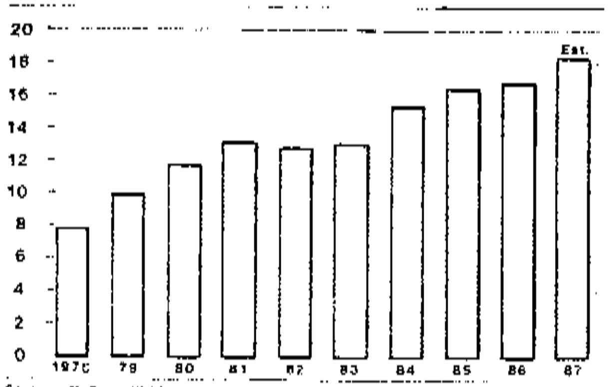
Operating rates, prices on the rise

Operating rates for the chemical industry are at levels not seen since mid-1979. According to the FRB, the industry was operating at 82.6% of capacity in April 1987; the year-earlier rate was 80.5%. Overall chemical operating rates have not topped 82% since 1979. This high level reflects the record output seen lately and modest capacity additions over the past few years. The plastics and chlor-alkali industries have been stellar performers in this regard, with utilization rates well over 90%. Overall, the industry is expected to operate at about 82% of capacity in 1987, versus 80.3% in 1986 and the 68.5% rate seen in the recession year of 1982.

Strong demand and high operating rates raise the specter of shortages. To prevent shortages in tight markets such as plastics, several major plant expansions are planned. In

CHEMICAL INDUSTRY CAPITAL SPENDING

(In Billions of Dollars)



Sources: McGraw-Hill; U.S. Dept. of Commerce

addition, some companies plan "de-bottlenecking," an industry term for replacing some equipment to increase the whole plant's efficiency. Thus far, the industry has avoided the mistake made in the late 1970s, when capacity was increased significantly through new plant construction. Just as this new capacity was coming on-stream, recession hit. The lower-than-expected demand growth that resulted left the chemical industry with massive overcapacity for years.

Chemical selling prices should continue to strengthen for the rest of 1987, reflecting good end demand and rising cost pressures due to higher petroleum feedstock costs. In May 1987, the producer price index (PPI) for chemicals and products was at 309.3 (1967 = 100), up 3.6% from May 1986. For 1986 as a whole, the index averaged 1.1% below 1985 levels, as the sharp drop in world oil prices caused prices to decline. The PPI for industrial chemicals, which declined 4.6% during 1986, was at 335.1, 5.0% above the May 1986 level. The chemicals price index is expected to average more than 3% above the 1986 level, while industrial chemicals may rise by an even greater percentage. These increases, especially for industrial chemicals, are greater than we had forecasted earlier in the year.

Benzene, a key aromatic chemical derived from petroleum, provides an illustration of what has been happening to prices and the domino effect this has on other products. From a low of about $0.70 in mid-1986, benzene prices peaked at about $2.50 this spring; at press time, prices had receded to just under $2.00. In response to benzene's higher selling prices, such derivative products as styrene and polystyrene have seen significant price increases as well.

The chemical industry is benefiting greatly from a rever-

Chemical industry production statistics

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept	Oct.	Nov.	Dec.	Year
[1]Chemical production indexes 1977 = 100													
Chemicals and products, SIC 28													
1987	R137.4	137.7	135.2	139.0									
1986	131.7	132.0	130.2	132.8	131.5	134.2	134.1	134.4	133.9	133.8	132.3	R134.6	133.0
1985	125.2	125.8	126.4	126.7	126.9	126.8	127.2	127.9	129.1	127.2	128.2	125.1	127.1
Basic chemicals, SIC 281													
1987	R109.7	105.1	101.2	105.5									
1986	102.4	103.2	95.5	95.2	100.7	96.4	96.2	97.4	103.1	101.2	97.8	R101.3	99.5
1985	100.4	100.0	97.2	96.3	102.4	100.9	101.9	97.5	97.4	100.3	95.4	94.7	98.8
Synthetics, SIC 282													
1987	R176.6	173.5	170.4	175.8									
1986	163.3	157.6	157.5	158.8	157.5	158.9	165.6	165.5	R165.8	168.0	165.5	R175.1	R163.1
1985	144.3	145.7	144.9	147.1	146.2	145.7	151.4	151.6	156.2	152.7	150.5	156.9	149.4
Agricultural chemicals, SIC 287													
1987	R91.4	92.6	90.8	95.4									
1986	82.5	86.3	88.9	89.6	90.8	85.7	80.9	78.7	86.4	87.1	82.8	R84.3	85.6
1985	101.2	98.8	99.2	99.1	100.8	99.6	94.8	93.3	97.0	95.4	89.7	83.3	96.1
Industrial organic chemicals, SIC 286													
1987	R112.9	113.5	115.2	116.6									
1986	110.1	109.2	108.4	109.0	110.2	112.4	111.2	112.4	111.8	112.7	113.5	113.7	111.2
1985	109.6	108.3	107.9	107.1	106.8	106.5	107.3	107.6	107.7	108.3	108.3	109.2	107.9
Paints, SIC 285													
1987	R95.4	105.9	99.3	100.3									
1986	102.7	102.6	98.1	108.6	102.3	98.0	101.3	101.1	96.0	98.7	96.9	93.7	100.3
1985	91.7	91.2	98.6	102.5	101.8	101.4	99.1	100.2	100.8	100.5	102.2	100.1	99.5
Soaps and toiletries, SIC 284													
1987	R191.6	187.3	191.8	193.6									
1986	164.3	185.1	179.9	193.9	191.7	193.4	201.3	187.5	185.8	186.7	185.9	R189.1	R188.7
1985	162.1	166.6	166.5	169.1	171.2	168.6	168.3	170.3	173.7	171.8	178.1	179.5	170.4
[2]Productivity*													
(1977 = 100)													
1987	R147.1	147.0	148.4	148.8									
1986	140.9	140.6	139.9	141.6	142.1	141.3	144.6	143.0	143.4	142.0	140.5	143.7	142.2
1985	132.7	133.1	133.4	133.5	135.2	134.6	135.5	137.4	138.7	137.1	137.5	137.6	135.6
[1]Operating rates, in percent													
Chemical industry													
1987	R82.1	82.1	82.2	82.6									
1986	80.3	80.4	79.1	80.5	79.6	81.1	80.9	81.0	80.5	80.4	79.3	R80.5	R80.3
1985	78.1	78.3	78.5	78.6	78.5	78.3	78.4	78.7	79.3	78.0	78.4	78.3	78.5

R-Revised. *Productivity is output per workhour, calculated by dividing indexes for production by indexes for workhours of production employees.
Sources. [1]Federal Reserve Board, [2]*Chemical Week*.

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Chemical industry shipment and price statistics

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Year
[1]Imports, exports, and shipments—in billions of dollars													
Imports													
1987	R113.7	130.5	142.3	134.6									
1986	1.280	1.249	1.362	1.275	1.229	1.236	1.360	1.186	1.153	1.106	1.354	1.208	15.000
1985	1.143	1.140	1.319	1.117	1.447	1.373	1.085	1.019	1.264	1.203	1.256	1.166	14.532
Exports													
1987	175.9	191.9	234.3	215.6									
1986	1.719	1.876	2.001	1.858	1.934	1.845	1.802	2,050	1.942	1.936	1.897	1.908	22.768
1985	1.937	1.818	1.958	1.768	1.883	1.777	1.781	1.860	1.858	1.835	1.643	1.643	21.761
Shipments, SIC 28—Seasonally adjusted													
1987	R17.191	17.137	17.097	17.386									
R1986	15.957	16.668	16.053	16,894	16.264	16.027	16.154	16.423	16.571	16.504	16.629	16.793	...
R1985	16.517	16,269	16.512	16.529	16.319	16.568	16.352	16.162	16.305	16.469	16.291	16.577	...
[1]Inventory/sales ratios—SIC 28													
1987	R1.59	1.59	1.57	1.55									
R1986	1,51	1.54	1.60	1.53	1.58	1.62	1.62	1.58	1.57	1.69	1.58	1.61	...
R1985	1.53	1,56	1.54	1.52	1.56	1.54	1.56	1.58	1.57	1.54	1.56	1.52	...
[2]Producer price indexes													
Chemicals and allied products (1967 = 100)													
1987	R301.1	301.8	304.5	306.7	309.3								
1986	305.1	303.7	303.8	300.2	298.5	298.4	299.3	297.0	297.5	298.2	298.5	297.5	299.8
1985	301.7	302.2	302.6	303.3	303.2	303.7	304.6	304.6	304.7	302.8	302.6	301.5	303.1
Industrial chemicals (1967 = 100)													
1987	R324.3	323.4	327.8	331.1	335.1								
1986	341.7	335.0	336.5	323.5	319.8	316.5	317.5	315.5	317.0	318.0	316.0	316.9	322.8
1985	337.7	336.4	336.7	336.0	335.5	339.5	340.0	343.7	342.4	337.9	335.4	335.1	338.1
Synthetic fibers (Dec. 1975 = 100)													
1987	R149.3	149.0	148.9	147.5	147.1								
1986	151.1	151.5	151.5	149.8	149.6	149.3	150.1	149.6	149.4	148.7	148.7	148.4	149.0
1985	157.6	157.7	156.5	157.4	157.1	156.3	154.7	154.7	154.9	150.1	150.4	150.2	154.8
Agricultural chemicals and chemical products (1967 = 100)													
1987	R269.2	273.8	277.4	279.1	277.5								
1986	275.2	278.1	279.7	279.2	279.1	279.7	277.2	274.1	273.3	269.7	269.6	270.5	275.5
1985	282.3	281.6	281.8	282.8	283.1	281.7	281.8	282.1	281.8	280.3	280.8	279.5	281.6
Plastic resins and materials (1967 = 100)													
1987	R290.7	290.1	293.8	301.4	304.5								
1986	300.9	302.4	301.8	296.6	295.6	295.2	299.3	294.4	290.1	292.9	295.5	288.5	296.1
1985	302.9	306.6	306.3	306.1	305.4	307.1	307.5	308.4	305.1	300.6	299.9	296.7	304.2

R-Revised

Sources: [1]Department of Commerce [2]Bureau of Labor Statistics

sal in the deterioration of its trade position, primarily due to the much weaker U.S. dollar. For the first four months of 1987, the industry's trade surplus increased, continuing a trend that started in the second quarter of 1986. For the January–April 1987 period, chemical exports rose 9.7% from the comparable 1986 period, while imports grew less than 1%. The resulting trade surplus advanced 30%. The weaker U.S. dollar has finally made U.S. producers more price-competitive in world markets and has reduced the attractiveness of imports to domestic buyers. Because S&P does not expect the U.S. dollar to begin rising until the end of 1987 or early 1988, the strengthening of chemical exports and an increase in the chemical trade surplus should continue for the rest of 1987.

According to the Spring 1987 survey of capital spending plans conducted by Data Resources Inc. (DRI), an economic forecasting firm in Lexington, Mass., the chemical industry will be spending much more in 1987 than had been anticipated in late 1986. The chemical industry now plans to increase capital outlays by 9% in 1987, to $18.26 billion, from $16.75 billion in 1986. With inflation in plant and equipment costs projected at 3.8%, the real (inflation-adjusted) rise in capital spending will be about 5%. Preliminary spending plans for 1988 show an even greater boost in nominal spending—12%—than that for 1987.

The industry plans to spend 39% of its capital outlays on plant expansion, with the remaining 61% targeted for plant replacement and modernization. This is virtually unchanged from the 1986 breakdown, which was 40% and 60%, respectively. With the boost in real spending levels, capacity is projected to grow 4.5% this year, versus 3.9% in 1986. An even larger expansion—5.0%—is expected for 1988. Despite the higher capital spending plans, we do not feel the industry will begin to build major, large-scale facilities.

The soaps, cleaners, and toilet goods category is expected to have the largest increase in capital spending this year with 35%, followed by paints with 32%. Plastic materials and synthetics will increase spending by 16%, while agricultural chemicals is expected to rise a surprising 14%. Spending in the industrial inorganic chemicals category should decline 12%.

The annual spring survey on research and development (R&D), also conducted by DRI, shows that the chemical industry will raise R&D outlays by 5% this year, to $9.3 billion. This follows a 2% increase, to $8.8 billion, in 1986. The chemical industry's planned 1987 increase just barely tops the 4.9% increase planned by all businesses. Between 1987 and 1989, the chemical industry plans to increase spending a total of 9.4%. Chemical R&D spending as a percentage of sales is expected to average 4.4%, versus 1986's 4.5% and the all-industry average of 3.5%. ■

BR001080

Production of top 50 chemicals

(In billions of pounds)

Chemical	R1985	1986	Average annual change (%) 1976-86	1981-86	1985-86
Sulfuric acid	79.30	73.64	+0.5	−2.0	−7.1
Nitrogen	47.46	48.62	+8.8	+6.5	+2.4
Oxygen	32.53	33.03	+0.4	−1.5	+1.5
Ethylene	29.85	32.81	+3.9	+2.2	+9.9
[1]Lime	31.60	30.34	−2.3	−4.3	−4.0
Ammonia	34.64	28.01	−1.8	−6.0	−19.1
Sodium hydroxide	21.79	22.01	+0.5	+1.1	+1.0
Chlorine	20.79	20.96	+0.1	−0.5	+0.9
Phosphoric acid	21.04	18.41	+1.5	−1.6	−12.5
Propylene Feed Stock	14.89	17.34	+5.6	+5.2	+16.5
[2]Sodium carbonate	17.19	17.20	+5.1	+0.8	0
Ethylene dichloride	12.10	14.53	+6.1	+7.8	+20.1
Nitric acid	14.73	13.12	−1.7	−6.3	−10.9
Urea	13.36	12.06	+4.4	−5.6	−9.7
[3]Ammonium nitrate	13.55	11.11	−2.5	−8.9	−18.0
Benzene	9.39	10.23	−0.3	+1.2	+8.9
Ethylbenzene	7.39	8.92	+4.4	+2.7	+20.7
[4]Carbon dioxide	9.25	8.50	+8.0	+2.3	−8.0
Vinyl chloride	9.46	8.42	+4.0	+4.1	−11.1
Styrene	7.62	7.84	−2.2	+3.3	+2.8
[5]Terephthalic acid	6.49	7.68	+0.6	+4.3	+18.4
Methanol	5.00	7.33	+1.6	−3.1	+46.5
Hydrochloric acid	5.61	5.97	+1.6	+3.0	+6.3
Ethylene oxide	5.43	5.94	−3.6	+2.9	+9.4
Formaldehyde, 37% by wt.	5.61	5.89	−0.8	+0.6	+5.0

Chemical	R1984	1985	Average annual change (%) 1976-86	1981-86	1985-86
Toluene, all grades[7]	5.07	5.82	−2.2	−1.2	+14.7
Xylene	5.31	5.55	+0.7	−.2.6	+4.5
Ethylene glycol	4.18	4.76	+3.6	+2.8	+13.9
p-Xylene	4.78	4.67	+4.8	+0.6	−2.3
Ammonium sulfate	4.19	4.17	+0.4	−0.9	−0.3
Cumene	3.35	3.70	+3.1	+2.2	+10.5
Acetic acid	2.90	2.93	+1.8	−0.9	+1.2
Phenol, synthetic only	2.78	2.92	+3.3	+2.5	+5.2
Butadiene	2.34	2.59	−3.0	−2.8	+10.8
Carbon black	2.57	2.59	−1.6	−1.1	+0.5
Potash, K_2O basis	2.84	2.56	−6.0	−11.5	−9.2
Aluminum sulfate	2.54	2.52	+0.5	−0.6	−0.8
Propylene oxide	2.40	2.48	+3.1	+6.1	+3.3
Acrylonitrile	2.35	2.31	+4.3	+3.0	−1.4
Vinyl acetate	2.11	2.25	+4.3	+3.0	+6.5
Methyl *tert*-butyl ether	1.89	2.24	NM.	+24.1	+18.3
Cyclohexane	1.66	2.07	−0.5	+2.6	+25.0
Acetone	1.79	1.94	+0.4	−2.0	+8.3
Titanium dioxide	1.72	1.83	+2.5	+3.8	+6.6
Sodium silicate	1.44	1.57	+0.5	+0.4	+9.0
[4]Calcium chloride	1.88	1.56	−4.2	−3.2	−17.0
[7]Sodium sulfate	1.65	1.55	−4.5	−6.9	−6.3
Adipic acid	1.45	1.52	0	+2.0	+4.7
Isopropyl alcohol	1.24	1.28	−4.1	−5.2	+3.2
Sodium tripolyphosphate	1.25	1.27	−1.3	−1.8	+1.4

R—Revised. NM—Not meaningful, as production data for previous years is not available. [1]Except refractory dolomite. [2]Synthetic and natural. [3]Original solution. [4]Liquid and solid only. [5]Includes both acid and ester without double counting. [6]Solid and liquid. [7]High and low purity.
Source: Chemical & Engineering News.

All Organics

Top 50 chemical producers—1986

(Ranked by chemical sales)

Company	Chemical sales: In millions of $	% change from 1985	As a % of total sales	[1]Chem. oper. profits (mil. $)	[2]Operating profit margin (%)	[3]Oper. return on chem. assets (%)
Du Pont	11,839	+5.2	43.6	1764	14.9	20.2
Dow Chemical	6,863	−6.8	79.8	976	11.0	12.0
Exxon	6,079	−8.9	8.1	817	13.4	14.8
Union Carbide	5,001	−25.3	78.6	748	15.0	14.8
Atlantic Richfield	4,915	+29.2	32.6	399	8.1	19.1
Monsanto	[4]4,701	−9.6	60.3	896	19.1	23.2
BASF Wyandotte	[4]3,600	+38.5	100.0	N.A.	N.A.	N.A.
Shell Oil	3,292	−0.8	19.6	646	19.7	18.8
Amoco	2,928	+0.8	14.5	467	15.9	18.3
Celanese	2,891	−5.1	100.0	258	8.9	N.A.
Allied-Signal	2,819	+37.2	23.9	346	12.3	16.0
W. R. Grace	2,492	−13.1	66.9	285	11.4	17.5
Mobil	2,391	+5.5	4.8	205	8.6	9.7
Eastman Kodak	2,379	+1.3	20.6	227	9.5	10.0
Chevron	2,378	−8.9	9.1	147	6.2	4.6
General Electric	2,331	−0.7	6.3	424	18.2	11.8
Occidental Petroleum	[6]2,085	+28.8	13.0	176	8.4	7.3
Rohm & Haas	2,067	+5.1	100.0	280	13.5	19.0
American Cyanamid	1,821	−0.5	47.7	135	7.4	10.6
Air Products[5]	1,798	+7.4	90.7	363	20.2	16.7
Mobay	1,710	+6.9	100.0	150	8.8	N.A.
Hercules	1,709	−2.0	65.4	101	5.9	6.9
Phillips Petroleum	1,698	−25.1	17.0	299	17.6	28.4
Borden	1,638	+7.0	32.7	176	10.7	12.6
Ciba-Geigy	1,490	−3.2	61.3	N.A.	N.A.	N.A.

Company	Chemical sales: In millions of $	% change from 1985	As a % of total sales	[1]Chem. oper. profits (mil. $)	[2]Operating profit margin (%)	[3]Oper. return on chem. assets (%)
Ashland Oil	1,477	+1.5	20.3	71	4.8	13.5
B.F. Goodrich	1,458	+5.4	57.1	134	9.2	11.1
FMC	1,399	−11.0	40.6	224	16.0	16.7
American Hoechst	[4]1,331	−2.2	77.8	N.A.	N.A.	N.A.
Texaco	1,279	+4.8	4.0	31	7.1	8.2
Ethyl	1,272	+2.5	57.0	247	19.4	29.6
Olin	1,114	−2.9	65.3	80	7.2	9.6
National Distillers	1,087	+4.7	62.8	124	11.4	8.9
Dow Corning	1,065	+20.4	100.0	[7]111	10.2	N.A.
International Minerals[8]	1,077	+1.9	87.1	35	3.2	1.7
National Starch	1,064	+20.7	100.0	140	13.2	18.9
Unocal Corp.	1,058	−18.2	12.8	[7]46	4.4	6.4
Borg-Warner	1,043	+12.3	30.9	153	14.7	27.3
Lubrizol	889	+10.6	91.0	140	15.7	23.7
PPG Industries	[6]843	+0.2	18.0	103	12.2	8.7
Aluminum Co. of America	[4]840	+209.6	18.0	N.A.	N.A.	N.A.
Pennwalt	777	+14.2	70.1	93	12.0	14.3
Cabot[5]	769	+7.9	58.7	138	17.9	27.9
CF Industries	766	−16.8	100.0	−45	def.	def.
Reichhold Chemicals	766	−6.9	100.0	53	7.0	11.6
Aristech	751	−4.9	100.0	98	13.0	N.A.
Nalco Chemical	736	+7.9	100.0	108	14.7	18.4
NL Industries	734	+30.1	57.2	N.A.	N.A.	N.A.
Eli Lilly	699	−2.0	18.8	52	7.6	6.9
Engelhard	666	+11.3	29.1	77	11.6	12.7

[1]Operating profit defined as sales less administrative expense and cost of selling. [2]Operating profit as a percentage of chemical sales. [3]Operating profit as a percentage of identifiable chemical assets. [4]Chemical sales include significant amounts of nonchemical products. [5]Fiscal year ended Sept. 30, 1986. [6]Does not include all chemical products. [7]Chemical net profit. [8]Fiscal year ended June 30, 1986. def—deficit. N.A.—Not available.
Source: Data Resources, Inc.

Engineering thermoplastics: high performance, good growth

Engineering thermoplastics are high-performance, specialty polymers. According to *Whittington's Dictionary of Plastics*, these compounds have "mechanical, chemical, and thermal properties [that make them] suitable for use in construction, machine components, and chemical processing equipment." Such plastics can replace metals, glass, and even other plastics in a wide variety of products and applications. The U.S. Department of Commerce estimates that shipments of engineering thermoplastics grew 12% annually during 1982-85 and is predicting growth of 8%-10% annually through 1990.

Compared with the metals they often replace, engineering polymers offer manufacturing advantages and cost savings, despite a higher cost, pound for pound, versus steel. Plastics' ease of fabrication means fewer production steps, reduced finishing work, and lower tooling costs, all of which enhance productivity. Furthermore, because plastics can be molded into complex shapes, styling freedom is increased. Lastly, since they are lighter than metals, engineering plastics allow the weight of the finished product to be reduced with no loss of strength.

Improvements such as these come at a price, however: compared with the more common commodity plastics, engineering plastics are generally more expensive, with selling prices ranging from just over a dollar up to $20 a pound. According to the International Trade Commission (ITC), prices for engineering plastics averaged $1.62 a pound in 1985, versus $0.48 for all plastics and resin materials.

The major producers of engineering plastics are GENERAL ELECTRIC (generally considered the largest producer), DUPONT, Celanese (a unit of Hoechst of Germany), BORG-WARNER CORP., ALLIED-SIGNAL CORP., DOW CHEMICAL, Mobay (a unit of Bayer AG of Germany), and MONSANTO. Other producers are AMOCO, PHILLIPS PETROLEUM, BASF of Germany, and IMPERIAL CHEMICAL INDUSTRIES.

What are they? Where are they used?

Definitions of just what constitutes an engineering thermoplastic differ. The Society of the Plastics Industry (SPI) classifies eight compounds as engineering plastics: acetal, fluoropolymer, modified polyphenylene oxide (MPPO), polyamide-imide, polycarbonate, polyimide, polyphenylene sulfide, and polysulfone. The ITC includes all the polymers on the SPI list except fluoropolymers. Of the compounds listed above, industry analysts generally consider acetal, MPPO, polycarbonate, nylon resin (the major polyamide), and thermoplastic polyester resin as the major engineering plastics; some analysts also include the higher grades of acrylonitrile-butadiene-styrene (ABS). The rationale for excluding the other engineering plastics is that at present their volume is very small.

Thus, depending on which polymers are included, the size of the overall engineering plastics market varies. Using a broad definition (including ABS), industry analysts place production of engineering polymers at about 2 billion pounds in 1986. The Commerce Department estimates demand for engineering plastics will more than triple by the year 2000, as plastics continue to replace metals in many applications.

Using its own narrower definition (which excludes nylon), the SPI reports that engineering thermoplastics production was 834 million pounds in 1985 (latest available), with a total dollar value of $1.1 billion. Domestic consumption amounted to 636 million pounds. Exports accounted for about 24% of total output. Other major markets in 1985 were electrical/electronics (30%), transportation (17%), building (9%), industrial/machinery (4%), consumer/institutional (3%), packaging (2%), and other (11%).

R.M. Kossoff & Associates, a management consulting firm in New York City, estimates the domestic engineering plastic market (for the major polymers, but excluding ABS) was 1.15 billion pounds in 1985, with a value of $1.7 billion. Annual growth is projected to average 8% a year until 1990, when the total size of the domestic market will be 1.7 billion pounds, with sales of $2.9 billion. Kossoff is predicting that the industry will grow 9%-11% a year during 1990-95, depending on the penetration of engineering plastics for exterior auto parts, for a total of 2.6 billion pounds. Celanese Corp., using the same list of polymers, is projecting annual growth of 8%-10% in the U.S. through 1991, with the market reaching almost 1.8 billion pounds. The company has also estimated the world market at 3.2 billion pounds in 1985, with annual growth of 7%-8% through 1991.

According to Celanese, transportation was the largest market for engineered plastics in 1985, with 30% of total demand. Celanese projects growth of 9% a year in this market through 1991, when its share will have grown to 33%. The second largest market was electrical and electronics, with 25%. Longer-term growth is projected at 11% a year, lifting its share of the market to 30% in 1991. Consumer goods (including packaging and housewares) accounted for 20% of use in 1985 and are predicted to grow 7% annually. Industrial markets, which now have a 13% share, are expected to grow 5% annually, reducing their share to 11%. Construction had a 12% share in 1985, but is expected to grow only 1.5% a year; market saturation and increased competition from other plastics will limit growth in this area.

Engineering plastics described

Nylon (polyamide) resin is considered to be the first modern engineering plastic ever created and is the largest in terms of volume, with an estimated 465 million pounds produced in 1986. According to the SPI, nylon resin has grown 7% annually over the past ten years. Major producers include DUPONT, MONSANTO, Celanese, and ALLIED-SIGNAL CORP. Industry analysts estimate that auto markets account for about 40% of demand. Nylon is used in such auto parts as engine fans and shrouds, mirror housings, wheel hubs, door and window hardware, and bumpers. Other leading markets include electrical/electronics, consumer products, and packaging.

Polycarbonate (PC) is the second largest engineering resin. Production was about 450 million pounds in 1986, according to industry analysts, with domestic consumption estimated at about 345 million pounds. Leading uses include glazing (21%), electronics and business machines (15%), transportation (auto bumpers and body parts, 9%), appliances and industrial uses at 8% each, sports and recreation (5%), and other (11%). Exports account for 23% of demand. Over the next few years, packaging is expected to become an important market.

Analysts have estimated historical PC growth at 8% a year, with longer-term growth projected at 8%-10% a year. Strong growth is expected to come from the automobile market as original equipment manufacturers continue to replace metal parts with plastic ones. A promising area of growth is discs, both compact audio discs and data storage discs for computers. PC resin is the only material currently specified for use in discs.

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GENERAL ELECTRIC is by far the largest U.S. producer of PC, with about 420 million pounds of capacity. In May 1987, the company opened a new plant, adding 120 million pounds of new capacity. Mobay Chemical is the second largest producer, with 160 million pounds of capacity. DOW CHEMICAL plans to expand its capacity to more than 80 million pounds by late 1988, from 30 million pounds at present.

Modified polyphenylene oxide (MPPO) is the third largest engineering resin, with about 175 million pounds produced in 1986, according to analysts. The largest producer is GENERAL ELECTRIC, followed by BORG-WARNER. Markets include computer and business equipment, video display terminals, appliances, and automobiles. R.M. Kossoff & Associates estimates that growth will average about 7% annually from 1985.

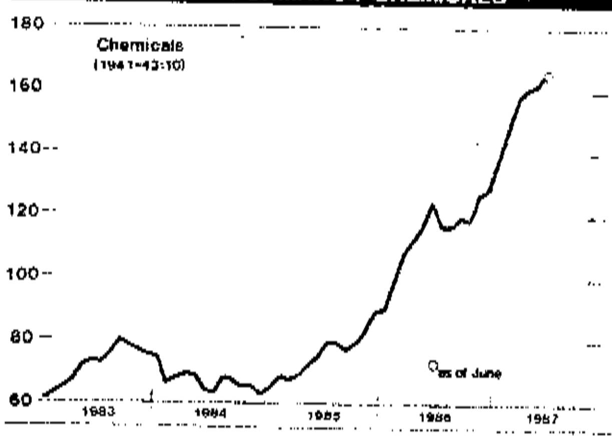
Acetal is the next largest engineering plastic, with about 160 million pounds produced in 1986. DUPONT and Celanese are the two domestic producers. BASF is building a U.S. plant, which is expected to begin operations in 1988. Acetal is used in auto and truck components and parts (about 21% of demand), consumer articles (18%), industrial machinery (13%), plumbing and electrical/electronic with 6% each, appliances (5%), hardware (2%), and other (6%). Exports took about 23% of total output. R.M. Kossoff is predicting 6% annual growth through 1990.

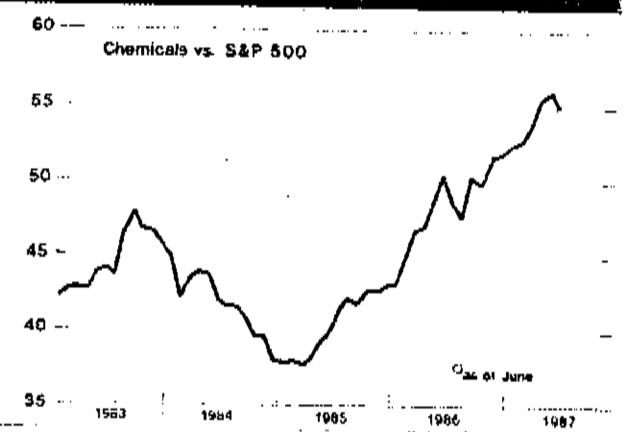
Output of **engineering thermoplastic polyester resins** was estimated at 140 million-150 million pounds in 1986, according to industry analysts. Polyester engineering resins are mainly polybutylene terephthalate (PBT) resins and high-viscosity polyethylene terephthalate (PET). (Beverage bottle grade polyester resin, which sells for about $0.60 a pound, is not considered to be an engineering resin.) GENERAL ELECTRIC is the largest producer, with Celanese a strong second. DUPONT and ALLIED-SIGNAL also make engineering polyester. Major markets include transportation, electrical, electronics, appliance, construction, and plumbing and hardware. R.M. Kossoff is projecting growth of 12% a year through 1990. Engineering polyester sells for $1.50–$2.00 a pound.

Acrylonitrile-butadiene-styrene (ABS) is a commodity plastic whose higher grades are able to compete with engineering plastics in some applications. There are three domestic producers—BORG-WARNER, DOW CHEMICAL, and MONSANTO—with over 1.6 billion pounds of capacity. Production in 1986 was about 1.1 billion pounds. Transportation is the primary market, accounting for 27% of demand, followed by electrical/electronics (23%), building and construction (20%), consumer refrigeration (15%), and other (15%). Analysts project longer-term growth at 4% a year. In automobiles, bumpers and interior body panels are promising areas of growth. Several manufacturers of office equipment are replacing the engineering resins they had been using with the higher grades of ABS, realizing they were "over-engineered" with the higher-priced plastics and did not need the toughness and heat-resistance they provide.

In addition to the compounds noted above, engineering thermoplastics can be combined. Alloys and blends are an exciting field: although they account for only about 10% of the total engineering resins market at present, their growth rates exceed those of standard engineering resins by 25%–30%. Benefits include a greater range of applications *vis-à-vis* standard engineering thermoplastics. Some examples of alloys and blends are polycarbonate/PBT polyester, polyphenylene ether/polystyrene, polycarbonate/ABS, and nylon/polyphenylene oxide. ■

STOCK PRICE PERFORMANCE–CHEMICALS





S&P's chemicals and diversified chemicals stock price indexes continued to outperform the broader S&P 500 stock index in the first half of 1987, continuing a trend that began in early 1985. The chemicals index has risen 169% since the start of 1985, versus 84% for the S&P 500; the diversified chemicals index rose 117% during the same period. The industry's strong fundamentals lead us to expect that the chemical indexes will continue to outperform the broader market this year. ■

INDUSTRY MARKET INDICATORS

	—Earns. Per Share—			—*P-E Ratios—		
	1985	1986	E1987	1987 High	1987 Low	7-8-87
500 Composite	14.61	14.35	18.30	18.82	13.47	16.85
400 Industrials	15.34	14.42	18.97	18.86	14.47	18.96
Chemicals	2.34	8.38	10.25	16.77	12.85	16.77
Chemicals (Diversified)	1.82	1.14	2.79	15.46	11.98	15.32

E-Estimated. *Based on estimated 1987 earns.

SCOREBOARD

Stock Price Indexes	12-31-85	12-31-86	7-8-87	—% Chg.— 85–86	86–87
500 Composite	211.28	242.17	308.29	+ 14.6	+ 27.3
400 Industrials	234.56	269.93	359.75	+ 15.1	+ 33.3
Chemicals	91.58	124.36	171.87	+ 35.8	+ 38.2
Chemicals (Diversified)	24.22	31.62	42.74	+ 30.6	+ 35.2

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McKesson

Serving America's Independent Retailers

McKesson has been serving the nation's independent retailers since 1833. Today, from Hawaii to Maine, independents such as pharmacist Chuck Glennie of Spokane, Wash., are turning to McKesson more than ever to help them compete and thrive in the rapidly changing retail arena. The nation's leading wholesale distributor of nondurable consumer goods with sales of $6.7 billion, McKesson does nearly 55% of its business with independents. For more on how these largely family-owned businesses are faring in the rough-and-tumble retail marketplace, see page 5.

1987 Annual Report

DIRECTORS AND OFFICERS

BOARD OF DIRECTORS

Robert P. Bauman[2,3]
Chairman, Beecham Group p.l.c.,
London, England

Robert R. Dockson[1,3]
Chairman of the Board
of CalFed Inc. and
California Federal Savings
& Loan Association,
Los Angeles, Calif.

Thomas W. Field, Jr[1]
President and
Chief Executive Officer,
McKesson Corp.

Neil E. Harlan[1]
Chairman of the Board,
McKesson Corp.

James R. Harvey*[2]
Chairman and
Chief Executive Officer,
Transamerica Corporation,
San Francisco, Calif.

George M. Keller*
Chairman of the Board
and Chief Executive Officer,
Chevron Corporation,
San Francisco, Calif.

Leslie L. Luttgens[3,4]
Leader of community and
national civic, public service
and cultural activities,
San Francisco, Calif.

Roy B. Miner
Retired; former Vice President
of the Corporation,
Tequesta, Fla.

Joseph R. Rensch[1,3]
Vice Chairman,
Pacific Lighting Corporation,
Los Angeles, Calif.

Ezra Solomon[1,2,4]
Dean Witter Professor of
Finance, Stanford University
Graduate School of Business,
Stanford, Calif.

J. Paul Sticht*
Chairman of the Board,
RJR Nabisco, Inc.,
Winston-Salem, N.C.

Malcolm Toon[1,2,4]
Retired; former U.S.
Ambassador to U.S.S.R.,
Southern Pines, N.C.

OFFICERS

Neil E. Harlan
Chairman of the Board

Thomas W. Field, Jr.
President and
Chief Executive Officer

Kenneth C. Hicken
Executive Vice President,
Operations

Rex R. Malson
Executive Vice President,
Operations

Alan Seelenfreund
Executive Vice President
and Chief Financial Officer

John S. Wheaton
Executive Vice President,
Administration

Ronald C. Anderson
Vice President of the
Corporation and President,
McKesson Service
Merchandising Division

Stanley A. Greenblatt
Vice President, Taxes

James I. Johnston
Vice President, Personnel

Marvin L. Krasnansky
Vice President,
Corporate Relations

Ivan D. Meyerson*
Vice President and
General Counsel

Nancy A. Miller
Staff Vice President and
Corporate Secretary

Garret A. Scholz
Vice President and Treasurer

Thomas B. Simone
Vice President and Controller

Arthur C. Weiner*
Vice President,
Corporate Services

*Mr. Harvey was elected a director effective January 1, 1987. Mr. Sticht was elected a director effective April 2, 1987. Mr. Meyerson was elected an officer effective January 1, 1987, replacing Donald J. Yellon, who retired on March 31, 1987. Mr. Weiner retired on May 31, 1987. Mr. Keller was elected a director effective June 4, 1987.

1 Member of the Executive Committee
2 Member of the Audit Committee
3 Member of the Compensation Committee
4 Member of the Public Policy Committee

As part of McKesson's efforts to improve the effectiveness of financial communications, the format of this year's annual report has been revised. Included in this annual report are the letter to shareholders, a review of operations, six year financial highlights, an expanded financial review and outlook and condensed financial statements. The audited financial statements are contained in the proxy statement.

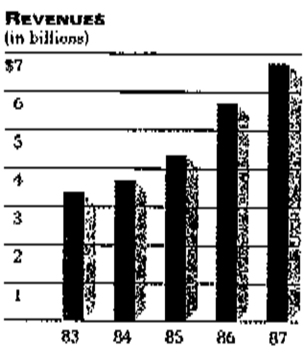
TABLE OF CONTENTS

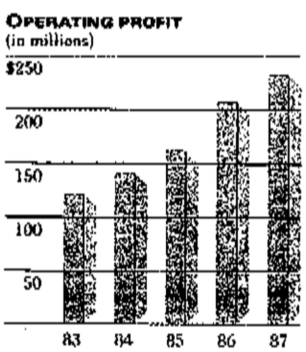
FINANCIAL HIGHLIGHTS

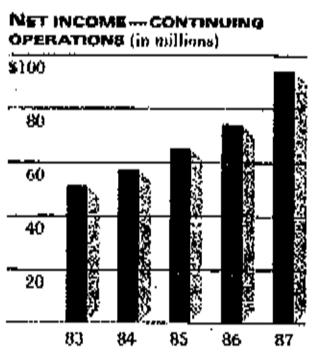
(dollars in millions except per share amounts)

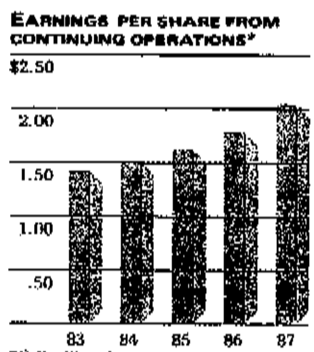
Years ended March 31	1987	% Inc.	1986	% Inc.	1985
Revenues					
Drug & Health Care	**$4,828.9**	18.4	$4,078.9	43.1	$2,849.8
General Merchandise	**880.1**	52.7	576.3	70.4	338.2
Beverage	**956.8**	(4.3)	1,000.1	(3.6)	1,037.1
Corporate	**5.8**	(44.2)	10.4	(10.3)	11.6
Total	**$6,671.6**	17.8	$5,665.7	33.7	$4,236.7
Operating Profit					
Drug & Health Care	**$ 118.9**	7.0	$ 111.1	50.7	$ 73.7
General Merchandise	**48.1**	29.3	37.2	19.2	31.2
Beverage	**64.0**	4.4	61.3	10.1	55.7
Total	**$ 231.0**	10.2	$ 209.6	30.5	$ 160.6
Income After Taxes					
Continuing operations	**$ 94.1**	27.0	$ 74.1	18.8	$ 62.4
Discontinued operations	**(4.4)**		3.8	46.2	2.6
Net Income	**$ 89.7**	15.1	$ 77.9	19.8	$ 65.0
Average stockholders' equity	**$ 726.4**	19.2	$ 609.4	10.0	$ 554.1
Return[1]	**13.0%**		12.2%		11.3%
Per Common Share[2]					
Fully diluted earnings					
Continuing operations	**$ 2.04**	15.9	$ 1.76	8.0	$ 1.63
Discontinued operations	**(.09)**		.08		.06
Total	**$ 1.95**	6.0	$ 1.84	8.9	$ 1.69
Dividends	**$ 1.26**	5.0	$ 1.20		$ 1.20
Book value—at year end	**$17.73**	5.9	$16.74	10.1	$15.20
Price earnings ratio of stock at year end[3]	**18.8**		17.3		13.3
Stock price at year end	**$ 38⅜**	26.3	$ 30⅜	40.5	$ 21⅝

1 Based on income from continuing operations.
2 Restated to reflect the two-for-one split of the company's common stock effective October 1, 1986.
3 Based on fully diluted earnings per share from continuing operations.









*Fully diluted

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McKESSON ZEROES IN ON SERVING THE NATION'S RETAILERS

Leadership position in core businesses, steps being taken to correct problems make it possible to achieve 10—12% growth in EPS on average over the next two to three years.

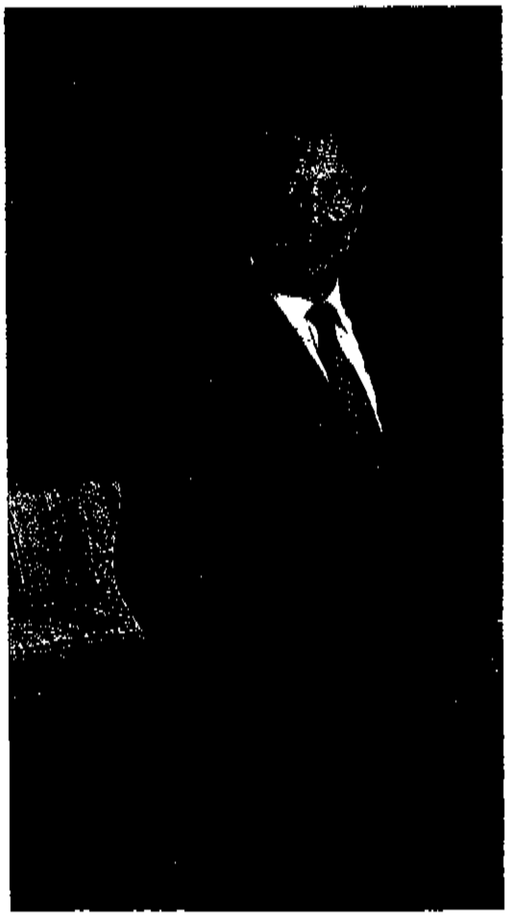
Long before the terms "restructuring" and "maximizing shareholder value" became jargon, McKesson Corp. set about to shed its conglomerate cloak and to focus its efforts on becoming the nation's premier distributor of non-durable consumer goods.

That effort began in the early 1980s and was largely completed in the past year with the sale of the company's chemical distribution and related businesses.

Through internal expansion and selected acquisitions, we have put in place a unique distribution network serving more than 120,000 retailers and health-care providers. We are the nation's largest wholesale distributor of pharmaceuticals. We also are the leader in the distribution of health and beauty aids and general merchandise to supermarkets and mass merchandisers and of bottled water, wine and spirits and veterinary supplies.

Two of our subsidiaries — Armor All Products Corp. and PCS, Inc. — rank at the top of their respective industries. Armor All® Protectant enjoys an estimated 90% share of the automotive protectant market, and PCS is the leader in computer-based prescription claims processing through a network of 60,000 retail pharmacies, 90% of the drugstores in the U.S. and Canada.

In refocusing the company's direction, we have significantly reshaped both the capital structure and the profit mix of the company. Some $425 million — or nearly 60% of our 1980 capital employed — has been divested. This amount included our food and home-building businesses in addition to the chemical operations. Of our current $1.3 billion of capital, about $600 million has been invested since 1980. More than 50% of our fiscal 1980 pretax profits of $115 million came from businesses we have since divested. About 80% of our operating profit in the year just completed was generated by our retail-oriented distribution operations. Our largest segment, Drug & Health Care, accounted for 50% of fiscal 1987 operating profit, up from 30% in 1980.



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Revenues and earnings reached new highs in fiscal 1987. Revenues increased 18% to $6.7 billion from $5.7 billion in fiscal 1986. Income from continuing operations was up 27% to $94.1 million from $74.1 million, and fully-diluted earnings per share from continuing operations rose 16% to $2.04 from $1.76. Fiscal 1987 results include a net after-tax gain of $10.6 million, or 22 cents a share, from the sale to the public of 13.8% of the common stock of PCS, partially offset by a special $10 million pre-tax contribution to the McKesson Foundation. This contribution will help provide long-term funding for the community service activities of the Foundation without additional contributions from McKesson in the foreseeable future.

Before taking into account special items, per share earnings from continuing operations were $1.82, up modestly from the prior year. These results reflect a number of year-end charges, most notably a 5-cent per share increase in cost of sales reflecting last-in, first-out (LIFO) inventory charges related to late-year pharmaceutical price increases from suppliers.

While fiscal 1987 results were short of our long-term objective of achieving growth in earnings per share of 10% to 12%, we believe that the strength of our core businesses and the measures we are taking to address our problem areas—notably our currently unprofitable office products distribution business—will return us to that path in fiscal 1988.

Neil E. Harlan, chairman of the board (right), and Thomas W. Field, Jr., president and chief executive officer: "...the challenge and opportunity for McKesson management is to execute a strategy that will enable us to exploit the demographic changes that are significantly reshaping the distribution industry as well as the shopping habits of the American consumer."

Reflecting our confidence in the future, the Board of Directors last July increased the dividend nearly 7% and split the common stock two-for-one. The new quarterly dividend rate is 32 cents a share. The Board also adopted a policy of repurchasing McKesson's shares in the open market in order to offset the dilution arising from employee incentive plans. While the dilution is relatively modest in any one year, over the long term the cumulative result would otherwise dampen the rate of growth in earnings per share. During the year, 1,164,000 shares were repurchased at an average price of $31.90. During fiscal 1988 we expect to repurchase about 2,400,000 shares.

In another move to enhance shareholder value, 16.7% of the shares of Armor All and 13.8% of those of PCS were sold to investors through two initial public offerings. The market reception for the shares of these two high-growth companies has been exceptional. Offered at $12.50 a share last October, Armor All closed at $17.13 on May 22. PCS, offered at $13.50 in November, was at $26.75. Our purpose in making these shares available to the public was to achieve greater visibility in the marketplace and fuller appreciation of their prospects. We believe this move has been good for McKesson as well as for Armor All and PCS.

Looking to the future, the challenge and opportunity for McKesson management is to execute a strategy that will enable us to exploit the demographic changes that are significantly reshaping the distribution industry as well as the shopping habits of the American consumer. These changes are having a great impact on the nation's retailers, especially independents—exemplified by Chuck Glennie of Spokane, Washington, pictured on the cover.

McKesson's wholesale drug operations number some 14,000 of the nation's 35,000 independent pharmacies among its customers. These

As part of a new management structure designed to produce closer coordination, four senior executives were named executive vice presidents (left to right): Rex R. Malson, operations; Kenneth C. Hicken, operations; John S. Wheaton, administration, and Alan Seelenfreund, chief financial officer.

customers represent over half of our wholesale drug distribution business.

The steps we are taking to strengthen the competitiveness of all of our independent retail customers are highlighted in a special report beginning on Page 5 as well as in the review of operations starting on Page 10.

At the same time, in response to a growing consumer demand for convenient one-stop shopping and product variety, retailers are opening huge, ultra-modern supermarkets—combo stores. These stores sell most of the products McKesson distributes—from prescriptions to pet supplies. Such outlets already account for about half of the sales of all health and beauty aids and over-the-counter remedies.

Recognizing the strategic significance of this trend, McKesson has moved rapidly into the service merchandising business. We are now the nation's leading service merchandiser, providing a wide range of products to these mass outlets.

In the year just completed, service merchandising revenues totaled nearly $600 million, and in the last quarter alone major new accounts were added totaling $100 million annually. Service merchandising has become our second largest business and is well on the way to becoming a billion-dollar-a-year operation.

To capitalize on our full potential as a broad-spectrum, nationwide distribution company, we will be making substantial capital investments over the next few years. These outlays will facilitate the integration of our operations and the maintenance of our position as the low-cost distributor. Over the past five years, we have invested some $300 million, primarily in new distribution facilities and computer systems. We estimate that capital outlays in fiscal 1988 will be about $115 million, up from $66 million in fiscal 1987.

Over the past several years, we have made our financial objectives known to our shareholders and to the investment community generally. This year, in reformatting our annual report to improve the effectiveness of our financial communications, we have expanded the Financial Review and Outlook, starting on Page 18. This review, which discusses the future prospects of the company as well as its past performance, provides more forward-looking information. We hope this information will be helpful to investors in evaluating the future prospects of the company.

Based on our assessment of the current economic environment, our marketplace and our financial plan, we believe the following objectives to be achievable over the next two to three years:

☐ Growth of 10% to 12% in earnings per share on average over the period. This objective is based on an assumption of 5% to 7% real growth and inflation of about 5%.

☐ A dividend payout target of 50% of net income over time.

☐ A debt-to-capital ratio of 40%.

☐ A return on equity of 15%, based on the above objectives, by the end of fiscal 1990.

With the critical elements of our distribution network in place and with our human resources and financial strength, we are well positioned to achieve these goals.

Neil E. Harlan
Chairman of the Board
June 3, 1987

Thomas W. Field, Jr.
President and Chief
Executive Officer

SERVING AMERICA'S INDEPENDENT RETAILERS

To compete in today's complex world of mass marketing, independents increasingly rely on McKesson's distribution and marketing expertise for merchandise selection, services and support.

The American landscape has changed radically since Samuel Adams described us as "a nation of shopkeepers" on the eve of the American Revolution. McKesson has been on the leading edge of change for much of that 200-year span, serving the needs of the nation's independent retailers.

For many of today's shopkeepers, the corner store has moved to the shopping center. But when you ask these hardy entrepreneurs what it takes to make it, the answers haven't really changed: love of the work; knowing their neighbors and customers; hiring good people and treating them with respect; courage to take risks and reap the rewards; long hours, stamina and patience; a good business plan, and most of all, a strong belief in the American dream.

In the complex world of mass marketing, today's independent retailers increasingly rely on the distribution and marketing expertise of McKesson for merchandise selection, services and support to keep them one step ahead in a demanding, competitive retail marketplace, and to help them live their dreams.

The Glennies — (above, clockwise from left) Gary, Scott, Marie, Chuck and Tim — feature competitive prices and a broad merchandise selection supplied by McKesson at Super Save Drugs in Spokane, Wash., where customer Marge Jordan (right) says she can "count on great service anytime. When you're sick, that can make all the difference."

BR001090

Attracted to McKesson nearly 10 years ago by its Economost automated order-entry system, pharmacy owner Chuck Glennie says: "Economost was an absolute lifesaver then, and we couldn't survive without it now."

THE BOY FROM TWO DOT, MONTANA

"The American dream really can come true," says 49-year-old Chuck Glennie, standing in front of his 14,000-square-foot store, Super Save Drugs, in Spokane, Washington.

"Because it's my own business, I have the chance to treat people the way I think they should be treated and to call my own shots. My staff and I aren't trying to please someone else; we're just trying to please our customers."

A pharmacist for 26 years, Glennie worked first for a chain store and then for two independents before striking out on his own. In 1978 he acquired Super Save Drugs and revamped the entire store. "Now I tell my people, 'You put your touch to things, buy what you think is right, manage your department like it's your own.' They do a super job."

Today, Super Save Drugs is the quintessential drug emporium, with annual sales of more than $2.25 million. Located in a thriving shopping strip, Super Save offers everything from pharmaceuticals to pantyhose, garden hoses to greeting cards.

A McKesson customer since he opened, Glennie says that McKesson services like the Economost automated order-entry system and Valu-Rite, the nation's largest voluntary drugstore program, have enabled him to compete with the chains. In fact, Economost was a major factor in Glennie's decision to choose McKesson as his wholesaler in 1978. "Every week I was spending 25 to 30 hours buying OTCs (over-the-counter products) and cosmetics from all the direct salesmen, pricing them and getting them onto the shelves. What a horrendous task!" he recalls. "McKesson came up with a solution: Economost. It was an absolute lifesaver then and we couldn't survive without it now." McKesson also handles his third-party claims processing, supplies drug interaction information and provides private-label products and in-store promotional programs.

Good service, too, is something he says he can count on. "When we need something...zoom! McKesson's here!"

Pharmacy competition is keen in Spokane, according to Glennie. Seven major chains operate pharmacies in his area. Seemingly undaunted, he says, "We make sure our prices are right and our service is unbeatable."

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Glennie says that increasingly his real competitors are health-maintenance organizations (HMOs) that contract with drug manufacturers and pay lower prices for some pharmaceuticals. A member of a state-wide preferred provider organization (PPO), he believes that stiff competition in prescriptions should "encourage drugstore owners to be more aggressive about merchandising the front end of their businesses." More than 73% of Super Save's business is from the "front end": over-the-counter remedies, health and beauty aids, gifts, sundries and video rentals. Prescriptions account for the remaining 27%. This mix is nearly the reverse of the average independent pharmacy.

Glennie's three sons are following closely in his footsteps. Cary, 26, a pharmacist, runs a North Spokane drugstore co-owned by the Glennies. Scott, 25, a CPA, created a special computer program to monitor the store's profitability. Tim, 20, is a pre-pharmacy student at Oregon State.

Observes Glennie: "Sure, this business is tough and competitive. But I look at my family and all the people knocking themselves out to make things go and I realize, gosh, I'm one incredibly lucky guy." Adds Glennie, who grew up on a cattle ranch in tiny Two Dot, Montana, "I wouldn't want to spend my life any other way."

Lisa Pitts (left) favors Woods Supermarkets' convenience and low prices, but it's their friendly service that keeps her and daughter Clara coming back. The Woods—(above, clockwise from left) Chris, Joan, Don, Jr., Don, Sr., Bertha, Jeff and Shelley—operate a $20 million-a-year grocery business in Missouri, with McKesson's MMI providing nearly all the nonfoods.

GROWING UP IN A SHOPPING CART

By contrast, Don Woods, Jr., was literally born into the grocery business and he takes it in stride when folks in Bolivar, Missouri, tease him good-naturedly about growing up in a shopping cart. That's because he was just two years old when his parents, Bertha and Don Woods, Sr., bought their first country grocery store.

Today the Woods Supermarket empire has blossomed into a $20 million-a-year business of five stores with 225 employees and a restaurant in southwest Missouri.

The senior Woods, 68, manages the flagship store in Bolivar. Bertha, 68, runs the family operation in Buffalo. Don Woods, Jr., 42, and his wife, Joan, 39, operate the Woods Supermarket in Stockton and two businesses in El Dorado Springs.

A third generation of the Woods family—Chris, 14; Jeff, 11, and Shelley, 7—is already learning the grocery trade.

For nearly 30 years, the Woods family has relied on Mass Merchandisers (MMI) to ease some of the competitive pressure by handling their health and beauty aids and general merchandise. MMI's Jim Beshears and Scott Smith order, price-label and merchandise virtually all the Woods' nonfoods. MMI also advises Woods on marketing strategies and prepares inventory and management reports. "The toughest thing about competing today," says Don Woods, Jr., "is being able to acquire merchandise as cheaply as the chains do. MMI has taken care of us for years with the right price and good variety."

Nearly half of all health and beauty aids are now purchased in supermarkets. MMI supplies the Woods from a $100 million inventory of more than 26,000 items, including health and beauty aids, housewares, pet supplies, stationery and specialty foods. Starting with a 12-foot section in 1959, the Woods now devote 300 feet to non-foods. "Profits in grocery get shorter all the time while margins are improving on general merchandise and health and beauty aids," explains Don Woods, Sr.

The Woods' are extremely price-conscious and MMI has been able to help them compete with nearby chains. "We helped them set up their pricing systems and help keep them current," says Dale Williams, MMI district sales manager.

"In addition to pricing," says Don Woods, Jr., "customer service is the key to success in this business. Our people treat our customers like they want to be treated. I think that gives us the ultimate edge."

Sparkletts' Jim Clark makes a bi-weekly delivery to Carol Morreale's daycare center in Irvine, Calif. (right). "This job," says Clark, "allows me, as a single bread-winner, to keep my family (below) comfortable." He adds that beating back the competition is easier "when you have a superior product."

"I LOVE BEING THE SPARKLETTS MAN"

An independent merchant of another kind is Jim Clark, a Sparkletts Water route sales representative in Southern California. For nearly seven years, Clark, 31, has delivered Sparkletts drinking water to some 850 commercial and residential customers in fast-growing Orange County. Co-winner of the American Bottled Water Sales Representative of the Year award last year, Clark was selected for attracting new customers, increasing sales and compiling a perfect safety record.

Of all the jobs at McKesson, his is among the most entrepreneurial. Paid on commission, route sales people earn on average $37,000 a year and high performers can reach $54,000.

"The nice thing about this job is that you can make as much money as your strength, energy and determination allow," Clark says. On average, he hefts 150 five-gallon bottles a day.

Competition among the nine Orange County bottled water companies is fierce, Clark says. "If you don't develop a rapport with people and give them top-notch service, it's easy to get knocked off."

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Customer Larry McCarty (left) likes the congenial service from Pasadena Discount Liquors' owners Jo and John Valenty (above, front) and sons Bob and Jim (rear). A McKesson customer for 20 years, John Valenty says, "McKesson was good to me when I was buying 20 cases of vodka a month. Now I buy 400."

In that environment, how does he hold his own? "By being friendly and consistent and showing some genuine concern for my customers." Beating back the competition is easier, he adds, "when you have a superior product."

Clark lives in Riverside with his wife, Tina, and their six children. "This job allows me, as a single breadwinner, to keep my family comfortable.

"Besides, I love being the Sparkletts man," Clark adds. "Our TV advertising has given us almost that ice-cream man magic when we drive through a neighborhood."

"NOBODY CAN FIRE YOU"

Running your own business has a different set of rewards for John Valenty, 66, and his wife, Jo, 59, at Pasadena Discount Liquors on the outskirts of St. Petersburg, Florida. "Number one, you're your own boss, so nobody can fire you," jokes John Valenty.

An unspoken reward is the opportunity it gives them and their two sons to work closely together. In the early 1960s, when the Valentys bought their first package store, the couple was virtually inseparable. As soon as sons Bob and Jim were old enough, they started helping out in the store. Having built up a thriving business, John Valenty sold it. In 1980, his son, Bob, now 33, convinced him to open a new one.

The family's close involvement in the business is evident today in their 2,500-square-foot store. They are having "a whale of a lot of fun" watching the four-year-old business started virtually from scratch soar to nearly $1.5 million a year in sales, says John Valenty.

"It may sound corny," Jim Valenty, 37, adds, "but our slogan has always been, 'We're not here to make money. We're here to make friends.' " Interjects his father, "Besides, the money usually follows."

John Valenty isn't overly concerned with the competition. "I can knock off a dollar or two and meet anybody's price. Most of my competitors can't do that because they operate on a set mark-up. I can do it because I'm the owner and I know what it cost me."

But beyond price, the personal touch sets their operation apart—whether it's going over to the shelf to show a customer a special bargain, inquiring about a customer's kids or passing out some of Jo Valenty's hors d'oeuvres.

Along the way, the Valentys have benefited from the support and advice of their McKesson sales reps. "Back 20 years ago, when I was new in the liquor business," says John Valenty, "they'd give me pointers, especially for holiday buying. Now, when I need a special display or help with my ad, (McKesson sales rep) Sam Castellano or (McKesson general manager) Bill Finney gives me a hand. Plus, if I need Monday delivery, they'll take care of me. Since that's when my ad breaks, I need a wholesaler who'll have the product here when my customers show up to buy it. You know, McKesson was good to me when I was buying 20 cases of vodka a month. Now I buy 400."

RECORD PROFITS REFLECT McKESSON'S MARKET LEADERSHIP

Over the past five years, revenues have increased at a compound rate of 18% and operating profit 14%, reflecting McKesson's focus on its role as the primary distributor in the retail marketplace.

Revenues and operating profit of McKesson reached record levels in fiscal 1987, reflecting the company's leadership in America's trillion-dollar distribution industry and the strength of its Armor All Products Corp. and PCS, Inc., subsidiaries.

Revenues increased 18% to $6.7 billion from $5.7 billion and operating profit rose 10% to $231 million from $209.6 million. Over the past five years, revenues have increased at a compound rate of 18% and operating profit 14%.

Drug & Health Care, McKesson's largest operating segment, increased operating profit 7% to $118.9 million on revenues of $4.8 billion, an 18% increase. The totals include the results of McKesson's PCS subsidiary, processor of third-party prescription claims, which posted a 54% increase in operating profit to $15.6 million on a 38% revenue gain to $54.5 million.

The General Merchandise segment recorded revenues of $880 million, up 53%, and operating profit of $48.1 million, up 29%. The increases were partially due to acquisitions. Included are the results of the Armor All Products subsidiary, maker of Armor All Protectant, which increased revenues 18% to $107 million and operating profit 20% to $35.8 million.

Operating profit of the Beverage segment increased 4% to $64 million on the strength of the performance of the McKesson Water division. The bottled water unit reported a 17% increase in operating profit to $34.2 million on a 8% increase in sales to $181 million. Total revenues of the Beverage segment declined 4% to $957 million, due to the disposition of unprofitable wine and spirits wholesale houses and lower sales of imported products as a result of price increases stemming from the decline of the dollar and higher excise taxes.

"Our results confirm our decision in the early 1980s to refocus McKesson on distribution," says President and Chief Executive Officer Thomas W. Field, Jr. "This role is a natural extension of our position as supplier of drugs and health and beauty aids to independent pharmacies and food stores."

Field, who succeeded Chairman Neil E. Harlan as CEO last July, sees the company "ideally positioned" to take advantage of the changes in distribution resulting from shifting demographics and shopping patterns.

"The lines between retail outlets are being erased by consumer demand for product variety and the convenience of one-stop shopping in huge combo stores," Field says.

Recognition of this major shift in retailing led McKesson to begin redirecting its strategies in the early 1980s. Today, McKesson serves 120,000 of America's drugstores, groceries, hospitals, veterinarians, mass merchandisers, supermarkets, office products dealers and wine and spirits retailers.

Spokane independent pharmacy owner Chuck Glennie (foreground) says that McKesson services like Economost automated order-entry and Valu-Rite enable him to compete with the chains. Backing him up are (left to right) McKesson's John Ates, order filler; Randy Wilcox, driver; Laurie Hoover, computer room supervisor, and Wayne Schuh, retail account manager.

In its core wholesale drug business, McKesson has a leading share of the $16 billion-a-year market. Overall, wholesalers account for about 64% of pharmaceutical sales and their share is expected to continue to grow.

"As the leading wholesale drug distributor, we can offset pressures on margins by reducing operating expenses and increasing productivity," Field says. "This ability is critical in distribution, with its narrow margins."

McKesson has made a $50 million investment in 14 new drug distribution centers in the past six years and has earmarked a like amount for additional facilities over the next two years. The company is testing satellite communication to further modernize its high-technology network and is developing advanced distribution systems to achieve even more significant productivity breakthroughs, Field adds.

"Our commitment to technology, and our $125 million investment in computer systems, have enabled our wholesale drug operations to increase overall productivity at a 17% compound annual rate over the last decade," says Field. "Our office productivity was twice that of the industry average and our warehouse productivity was nearly 50% above the industry average in 1985, the latest year for which figures are available."

Field notes that McKesson has trimmed its drug distribution centers from 90 in the mid-1970s to 54 today and opened its first of a new generation of combo warehouses in Memphis in April. The 270,000 square-foot facility will house the company's drug, Valu-Rite, veterinary services and office products operations.

To achieve its long-term goals, McKesson is executing four key strategies in positioning itself as the primary distributor in the retail marketplace:

☐ Integrating acquisitions with core McKesson businesses to develop new markets and to expand market shares.

☐ Creating a stronger, lower-cost distribution business through common data processing systems, warehouse mechanization, combo facilities and joint procurement and marketing programs.

☐ Increasing sales and improving profit margins by building on McKesson's financial strength, size and diversity.

☐ Combining staffs and functions to improve efficiency and profitability.

"We've just begun implementing these measures," Field says, "and we have a long way to go, but they will result in a more market-focused, more customer-oriented, more efficient and more profitable business."

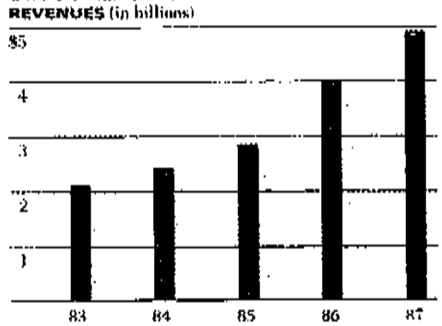
DRUG & HEALTH CARE SETS RECORDS FOR THIRD YEAR IN A ROW

McKesson's Drug and Health Care businesses achieved record revenues and profits for the third consecutive year.

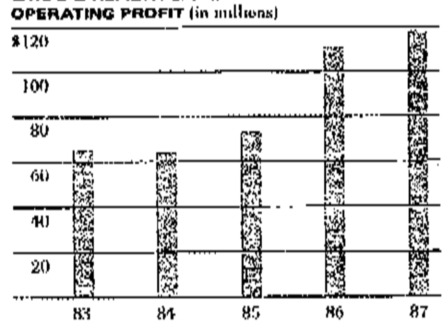
McKesson Drug, the company's largest unit, concentrated on attracting new independent drugstore customers, adding more than 1,000 for the third year in a row.

"Our wholesale drug business accounts for about 70% of McKesson's revenues and about 42% of its profits," notes Rex R. Malson, executive vice president of operations. "Even as the company expands into new areas of distribution, we're paying close attention to the customers in our core busi-

DRUG & HEALTH CARE— REVENUES (in billions)



DRUG & HEALTH CARE— OPERATING PROFIT (in millions)



Wholesale drug added over 1,000 new independent customers for third straight year; PCS profits soared as emphasis on containment of health care costs continued to increase.

nesses, especially the independent pharmacist, who faces tough competition from all directions."

Of the nation's 35,000 independent pharmacies, McKesson serves about 14,000, which account for nearly 55% of the company's wholesale drug business. Independents are critical to McKesson's success as they fill about 60% of all retail prescriptions.

"We provide virtually everything the independent pharmacist needs to be successful," Malson says, "including a growing menu of inventory management services, private-label products, marketing assistance, promotional merchandise and management support services."

McKesson has redesigned and strengthened its Valu-Rite voluntary retail drug chain, attracting new members in record numbers. Membership in Valu-Rite, the largest association of its type, soared to 2,500 from 1,900 in fiscal 1987, with its members accounting for about $525 million of McKesson's wholesale drug volume, up 17%.

"The dollar amount of business from Valu-Rite pharmacies is growing about 33% faster than our other independent retail accounts," points out McKesson Drug President Joseph E. Polastri. "That's evidence that independents are finding that Valu-Rite programs and products boost their sales and profitability."

Valu-Rite includes redesigned store identity packages, a highly popular circular to generate store traffic and a private-label line that includes vitamins, shampoos, toothpaste, ointment and a wide range of other products.

"Private-label products offer shoppers good values while yielding better margins for our customers, a major incentive for retailers to display and promote them," Polastri says. "We've gone from 75 Valu-Rite products in 1979 to more than 150 today, and we're introducing another 20 or so this year."

McKesson also expanded its Medalist private-label line for independent pharmacies and strengthened its "Great Valu$" programs which provide special-buy merchandise and in-store promotional support to help independents compete more effectively.

McKesson is also continuing its focus on America's hospital industry. In fiscal 1987, McKesson had hospital sales of about $650 million. Hospital sales represented 18% of wholesale drug sales and this share is expected to continue to increase.

"The hospital industry is very attractive," says Polastri, "in spite of the fact that it is a narrow-margin business with ongoing pressures to reduce costs while providing quality care."

In response to these pressures, McKesson provides computerized order-entry and order-confirmation systems, management reports to assist in cost and inventory control and timely deliveries.

"Because buying from a wholesaler is more cost-effective than direct purchases from manufacturers, hospitals are changing their buying patterns," Polastri notes. "As a result, wholesalers have a 65% share of the pharmaceutical business in the hospital drug market today, and that share is expected to continue growing."

Early in fiscal 1988, McKesson combined three operations serving the home health care field into a new unit, McKesson Home Health Care, with revenues of $72 million. The unit manufactures and distributes durable medical equipment and home health care supplies and provides management services to dealers.

Don Woods, Jr. (foreground), whose family-owned and operated supermarkets dot Missouri, relies on McKesson's MMI to manage the stores' nonfoods. Backing him up are (center, left to right) MMI's order filler Janet Richardson and order entry supervisor Zebbie Tabor and (rear, left to right) driver Don Caudle, salesman Jim Seabears and customer support clerk Rosetta Earnhart.

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McKESSON CORP. NYSE-MCK

RECENT PRICE 33 | P/E RATIO 16.3 (Trailing: 17.3; Median: 8.5) | RELATIVE P/E RATIO 1.03 | DIV'D YLD 3.9% | VALUE LINE 1400

High—	12.7	14.0	10.6	7.3	7.5	8.3	9.6	11.8	16.6	17.5	20.2	22.7	25.5	22.2	26.8	35.3	39.5
Low—	9.5	9.3	5.1	4.7	5.1	6.8	7.5	8.5	9.0	10.3	15.7	14.5	18.8	16.4	18.5	24.8	30.0

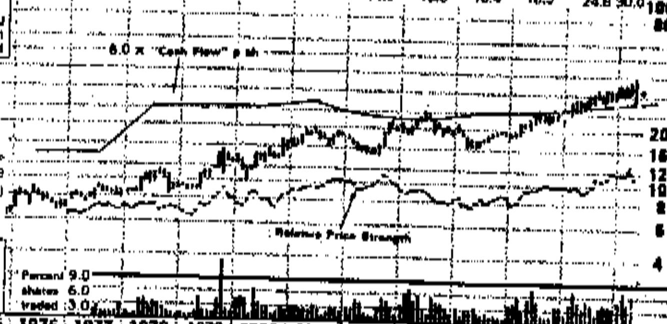
1988 | 1989 | 1990 | 1991

May 22, 1987 — Value Line

Target Price Range

Insider Decisions 1986

	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J
to Buy	0	0	2	1	0	2	1	0	0	0	0	0	0	0	1
to Sell	0	0	0	0	2	0	0	0	0	0	0	0	2	1	1



(Continued from Capital Structure) into 65.2 shs. at $15.33 an $80 mill. 9¾% debs., callable 107.3, conv. at $43.75 into 22.9 shs. (35% of Cap'l)
Incl. $10.4 mill. capitalized leases.
(Total interest coverage: 4.5x)

TIMELINESS (Relative Price Perform-ance Next 12 Mos.) **4** Below Average

SAFETY (Scale: 1 Highest to 5 Lowest) **2** Above Average

BETA .90 (1.00 = Market)

1989-91 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	60	(+ 80%)	19%
Low	45	(+ 38%)	11%

Institutional Decisions

	4Q'85	1Q'86	2Q'86	3Q'86	4Q'86
to Buy	41	41	46	50	41
to Sell	32	38	38	36	52
Hld's (000)	19378	19970	20876	23923	21878

1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	© VALUE LINE, INC.	89-91E
68.08	73.91	83.88	93.74	103.59	109.84	108.66	122.05	122.40	121.70	129.11	140.22	121.44	119.32	135.71	145.92	157.70	177.40	Sales per sh (A)	210.00
1.21	1.41	1.62	1.88	1.83	1.79	1.88	2.38	3.04	3.14	3.16	3.45	2.92	2.72	3.00	3.13	3.55	3.75	"Cash Flow" per sh	5.45
.72	.86	.87	.99	1.09	1.05	1.08	1.32	1.68	1.91	1.93	2.07	1.72	1.63	1.67	1.85	1.91	2.20	Earnings per sh (B)	3.25
.40	.40	.42	.44	.44	.46	.49	.54	.62	.84	1.00	1.12	1.20	1.20	1.20	1.20	1.24	1.30	Div'ds Decl'd per sh (C)	1.50
.72	.61	.50	.64	.72	.75	1.65	1.65	1.87	1.85	1.96	2.28	1.89	1.64	1.81	1.97	1.85	1.75	Cap'l Spending per sh	2.00
5.39	6.05	6.31	7.16	8.07	8.90	9.58	10.59	11.91	13.05	14.18	14.50	14.83	15.11	15.51	16.15	17.05	18.00	Book Value per sh (D)	21.00
25.54	26.16	24.06	22.90	22.96	23.24	24.57	25.15	27.07	30.09	32.01	32.04	33.38	36.70	36.01	43.07	43.00	47.00	Common Shs Outst'g (E)	50.00
14.0	13.5	12.0	6.6	5.4	6.7	7.3	6.6	6.0	6.3	7.7	8.8	10.7	13.0	11.2	13.2	18.3		Avg Ann'l P/E Ratio	15.5
1.00	.86	.82	.65	.76	.89	.93	.86	.82	.91	1.02	1.07	1.18	1.10	1.04	1.07	1.22		Relative P/E Ratio	1.30
4.0%	3.5%	4.1%	6.6%	7.6%	6.5%	6.2%	6.2%	6.2%	7.0%	6.8%	6.2%	6.5%	5.7%	3.4%	4.9%	3.5%		Avg Ann'l Div'd Yield	2.9%

CAPITAL STRUCTURE as of 12/31/86

Total Debt $458.6 mill. **Due in 5 Yrs** $231.0 mill.
LT Debt $417.1 mill. **LT Interest** $47.2 mill.
excl. debt of unconsol. subs.: $45.1 mill.
Incl. $2.4 mill. 6% debs. ('94) callable 101.8 cv.
(Continued on Chart)

Leases, Uncapitalized Annual rentals $26.5 mill.
Pfd Stock $9.1 mill. **Pfd Div'd** $.5 mill.
Incl. 353,373 shs. $1.80 cum. pfd. ($35 par), callable at $37, cv. into 1.625 com. shs.
(1% of Cap'l)

Common Stock 42,011,909 shs. (64% of Cap'l)
(50 mill. fully diluted shs.)

1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987		89-91E
2694.6	3069.9	3313.2	3661.6	4132.6	4492.8	4053.7	4260.0	4887.1	6285.0	6694.7	7450	Sales ($mill) (A)	10500
3.0%	4.0%	3.5%	3.7%	3.6%	3.6%	3.8%	3.6%	3.7%	4.0%	4.0%	4.0%	Operating Margin	4.2%
14.4	18.7	27.8	30.0	33.2	38.0	35.0	34.9	44.5	57.4	55.0	70.0	Depreciation ($mill)	100
35.5	44.8	57.7	66.8	69.3	73.5	63.2	63.0	64.2	77.9	97.0	92.5	Net Profit ($mill)	165
42.7%	47.3%	40.5%	29.0%	40.0%	40.7%	44.9%	46.0%	47.6%	47.8%	43.9%	40.0%	Income Tax Rate	40.0%
1.3%	1.5%	1.7%	1.8%	1.7%	1.6%	1.6%	1.5%	1.3%	1.2%	1.4%	1.3%	Net Profit Margin	1.6%
219.2	224.0	248.7	263.2	279.0	296.6	307.3	236.3	345.4	466.9	520	570	Working Cap'l ($mill)	850
246.0	247.5	267.9	241.7	220.7	304.8	263.3	186.6	233.9	490.2	420	400	Long-Term Debt ($mill)	350
306.5	342.4	378.1	424.4	480.2	481.5	510.3	552.7	658.6	695.8	750	800	Net Worth ($mill)	1050
7.9%	9.2%	10.8%	12.2%	11.9%	11.6%	10.0%	9.8%	9.6%	8.4%	10.0%	10.0%	% Earned Total Cap'l	13.5%
11.6%	13.1%	15.3%	15.7%	14.4%	15.3%	12.4%	11.4%	11.5%	11.2%	12.5%	12.5%	% Earned Net Worth	15.5%
8.5%	10.5%	11.8%	10.3%	8.1%	8.1%	4.6%	3.8%	3.7%	4.5%	4.5%	5.0%	% Retained to Comm Eq	6.5%
43%	38%	34%	39%	47%	49%	64%	67%	68%	60%	65%	59%	% All Div'ds to Net Prof	46%

CURRENT POSITION ($MILL.)	1984	1985	12/31/86
Cash Assets	45.3	43.6	119.6
Receivables	389.1	440.8	591.3
Inventory(LIFO)	397.6	511.8	721.0
Other	16.3	25.2	53.1
Current Assets	848.3	1021.3	1,485.0
Accts Payable	467.3	542.3	722.7
Debt Due	30.9	8.1	41.5
Other	113.8	125.5	233.0
Current Liab.	612.0	675.9	997.2

ANNUAL RATES of change (per sh)	Past 10 Yrs	Past 5 Yrs	Est'd '83-'85 (E) to '89-'91
Sales	3.0%	.5%	8.0%
"Cash Flow"	5.5%	—	9.0%
Earnings	5.5%	.8%	11.5%
Dividends	11.0%	12.5%	4.0%
Book Value	8.0%	5.0%	4.5%

Fiscal Year Begins	QUARTERLY REVENUES ($ mill.) (A) June 30	Sept. 30	Dec. 31	Mar. 31	Full Fiscal Year
1983	1013.9	1023.5	1139.3	1099.2	4275.9
1984	1154.5	1171.0	1326.3	1247.8	4899.6
1985	1368.4	1551.8	1676.4	1700.0	6296.4
1986	1714.4	1789.3	1788.3	1710.4	7002.4
1987	1700	1815	2025	1910	7450

Fiscal Year Begins	EARNINGS PER SHARE (A) June 30	Sept. 30	Dec. 31	Mar. 31	Full Fiscal Year
1983	.41	.42	.46	.34	1.63
1984	.38	.44	.46	.39	1.67
1985	.43	.48	.51	.43	1.85
1986	.47	.52	.55	.37	1.91
1987	.52	.58	.60	.50	2.20

Cal-endar	QUARTERLY DIVIDENDS PAID (C) Mar. 31	June 30	Sept. 30	Dec. 31	Full Year
1983	.30	.30	.30	.30	1.20
1984	.30	.30	.30	.30	1.20
1985	.30	.30	.30	.30	1.20
1986	.30	.30	.30	.32	1.22
1987	.32	.32			

BUSINESS: McKesson Corp. is the nation's largest distributor of drugs and toiletries. Also is the #1 distributor and an importer of wines and liquors. Sells bottled water in California and Southwest. Development group includes *Armor All* car care products, office prod. distribution, and drug insurance claims processing. Sold chemical operations 11/86. Discontinued food operations in '83; sold Foremost Dairies in 1982; *Mueller* pasta in '83. Insiders own 2% of stock: '85 depreciation rate: 9.1%. Est'd plant age: 4 yrs. Has 13,200 employ., 30,700 stkhldrs. Chairman: N.E. Harlan. President: T.W. Field, Jr. Inc.: Maryland. Address: 1 Post Street, San Francisco, CA 94104. Tel.: 415-983-8300.

PCS and Armour All are thriving. Last year, in order to increase investor awareness of these two successful companies, McKesson sold 15% of its ownership in each entity in an initial public offering. PCS, the country's largest third party processor of prescriptions, continues to enjoy explosive growth as its profits soared 65% in fiscal 1986 (ended March 31st). Armour All, a maker of car care products, is also registering good results as its profits rose 20% last year. Though these two companies combined represent only 3% of McKesson's total sales, they account for 22% of its pretax earnings. **Meanwhile, at the wholesale drug and health care operations, McKesson's mainstay business, results are slackening.** Margins have been under pressure here, due to price competition in several key markets. In the short term, the operating environment will probably remain difficult because of the ongoing consolidation taking place in the industry. However, McKesson has been spending heavily to increase productivity and to remain the low-cost operator in the field. Thus, it will be well positioned to benefit when the industry shake-out is completed.

The performance at other operations remains mixed. The **bottled water** business continues to be strong as consumer wariness of the quality of tap water pushes up sales. The **service merchandise** segment, which distributes non-foodstuffs to supermarkets, should also continue to record solid results, as grocery stores devote more space to nonedible products. On the negative side, we expect the **office products** group to be unprofitable again this year as sluggish capital spending in this sector will probably hold down volume. Also, at McKesson's **liquor business**, margins are improving, but sales growth will probably be lackluster in the near future.

These good-yielding shares may interest investors with a long-term horizon. Due to the recent weak quarterly earnings comparisons, however, the stock is now ranked 4 (Below Average) for Timeliness. Nevertheless, if our earnings estimates are near the mark, this stock could provide investors with above-average total returns through 1989-91.

James A. Flood

(A) Fiscal year ends Mar. 31st of following cal. yr. (B) Fully diluted earnings. Next earnings report due late July. Est'd current cost egs./sh.: '85, $1.80 (diluted). Excl. extraord. gain in '70, 22¢; '86, 20¢. Excl. discont. ops.: '82, d17¢; '83, 14¢; '84, 2¢; '85, 8¢; '86, (9¢). (C) ■ Div'd reinvest. plan avail. Next div'd meet'g about Aug. 6. Goes ex about Aug. 25. Div'd paym't dates: Jan. 2, Apr. 1, July 2, Oct. 1. (D) Incl. intangibles. In '85: $320 mill., $7.17/sh. (E) Fully diluted in 3 to 5 years. (F) Incl. other income.

Company's Financial Strength	B++
Stock's Price Stability	90
Price Growth Persistence	80
Earnings Predictability	90

Service merchandising attracted $100 million in new business in final months of the year as retailers responded to rising demand from consumers for variety and convenience of one-stop shopping.

"Although tighter government regulation of home health care has slowed the industry's growth in the past few years, the continued aging of the nation's population and efforts to contain soaring medical costs make this a highly attractive industry for companies that are willing to make a long-term commitment," says John B. Robinson, president of the unit.

With growing emphasis on workplace safety, Zee Medical reported another record year, with revenues topping $38 million. Zee services more than 300,000 commercial accounts, installing and maintaining a wide range of first-aid cabinets and safety products for the construction, food service, commercial and manufacturing industries.

McKesson entered the veterinary supply business in fiscal 1984 as an extension of its wholesale drug operations. Today, McKesson Veterinary Services is the largest distributor in the industry, serving 33 states, and reported record revenues of $76 million in fiscal 1987, a 55% increase. "Our goal is to become a nationwide distributor," says Richard L. Hagen, president, adding that the billion-dollar-a-year industry consists mainly of small, local operators. The company is testing an automated order-entry system, an industry first.

PCS continued its record growth, solidifying its leading position in the rapidly growing prescription drug claims processing business. Over the past five years, PCS's revenues have increased at a compound rate of 26% and profits 47%. PCS sold 13.8% of its outstanding shares in an initial public offering last November.

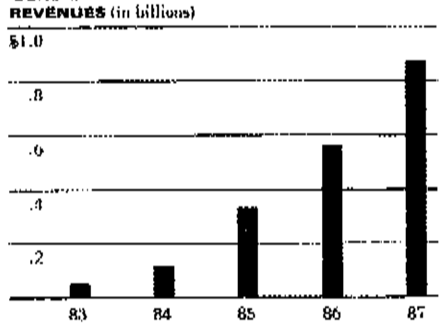
Nearly 14 million people in the U.S., Canada and Puerto Rico use the PCS card, which is honored by 60,000 pharmacies, 90% of the drugstores in North America. PCS lists some 100,000 companies as customers, including one-third of the Fortune 500. Among its clients are the nation's largest insurance companies, which sell PCS programs to employers as part of overall medical insurance packages. Today, 180 insurers, 38 Blue Cross/Blue Shield organizations, 50 health maintenance organizations, seven preferred provider organizations and 500 labor unions, welfare funds and companies that administer their own employee health care plans are PCS customers. In fiscal 1987, PCS processed about 58 million claims, totaling a record $843 million.

"We're very optimistic about the future," says Donald B. Dahlin, PCS president, "as the emphasis on containment of health care costs increases. We're the leader in our segment of the health care business, and over the last five years the number of PCS cardholders has increased at a 22% compound rate, 39% in the last year alone."

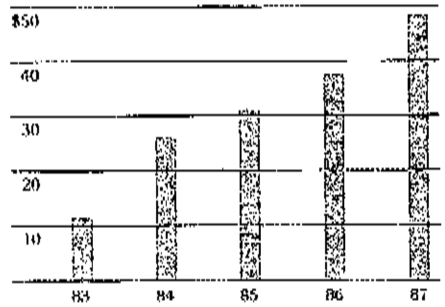
SERVICE MERCHANDISING, ARMOR ALL SPUR GROWTH

Created in fiscal 1987, the General Merchandise segment provides a wide array of consumer products to supermarkets, combo stores, mass merchandisers and office products dealers. Spurred by the rapid growth of the

GENERAL MERCHANDISE— REVENUES (in billions)



GENERAL MERCHANDISE— OPERATING PROFIT (in millions)



service merchandising unit and the Armor All Products subsidiary, the segment has become a major contributor to McKesson's profitability and prospects.

McKesson entered service merchandising in fiscal 1984 and is already the leading independent distributor of general merchandise and nonfood products to 13,000 customers in 48 states.

To handle bottled water orders for his 850 Southern California customers, Sparkletts' sales rep Jim Clark (front) depends on (clockwise, from left) Michelle Preciado, route accounting; Greg Sims, sales supervisor; Kelly McKeever, electric cooler sales; Richard Norman, training; Sue Cushman, marketing, and Kasorn Webster, production.

Service merchandising revenues reached nearly $565 million in fiscal 1987, and new accounts totaling more than $100 million on an annualized basis were added in the last few months of the year.

"We've only scratched the market's potential," says R. C. Anderson, president of McKesson's service merchandising operations, noting that nonfood sales by groceries climbed to more than $17.5 billion in 1985, far above the $4 billion sold in the 1960s.

"Consumer demand for one-stop shopping is driving the growth," Anderson says. "Retailers are responding with larger stores and are devoting more space to nonfoods as the product category grows at a faster rate than foods and offers them higher profit margins."

Anderson says supermarket operators are familiar with buying in case-lot and larger amounts, while slower-moving general merchandise and specialty food items are most efficiently purchased in smaller numbers.

"Our people are experts at this type of product management," he continues, "and grocers look to us to handle these products for them so they can concentrate on the food business. Our people handle the selection, warehousing, display and delivery of nonfoods.

"With McKesson carrying the nonfood inventory, supermarket operators can free up capital for new stores and modernization. With our inventory of more than $100 million consisting of 26,000 products, we have the buying power and variety of the largest chains. These strengths provide our customers an important edge in the fiercely competitive grocery industry."

As part of its expansion, McKesson service merchandising is introducing the Valu-Star line of private-label products, starting with health and beauty aids, and is expanding its specialty foods lines.

Armor All Products' record year reflected the company's aggressive marketing strategy for its Armor All Protectant, the leading automotive protectant product.

Armor All became a public company last October when 16.7% of its shares were sold in an initial public offering. Over the past five years, Armor All has recorded a compound growth rate of 18% in revenue and 28% in profit.

Armor All continued to identify new markets in fiscal 1987, focusing on the automatic carwash, marine and industrial segments, as well as international markets. "We also successfully introduced Clean Start, our new cleaner product," says Jeffrey M. Sherman, Armor All president. "Clean Start is the first step in broadening our product line and lessening reliance on Armor All Protectant, which holds an estimated 90% market share."

With sales off slightly to $178 million, the McKesson Office Products unit operated at a loss in fiscal 1987.

"We've committed considerable resources to our office products operation, building for the long run," says Hubert B. McMorrow, division president. "We've expanded, relocated and modernized facilities, resulting in unused capacity because of the general slump in the industry.

"We've also invested in order-entry computer systems and are working on improving our inventory management while sharpening our pricing strategies. We believe in the long-range potential of the business, and we're drawing on McKesson's distribution expertise to strengthen our operations."

Bottled Water Unit Shows Impressive Gains

Another record performance by its Water division led McKesson's Beverage segment to a new high in profitability.

"Fiscal 1987 was a great year for our water business," notes Executive Vice President of Operations Kenneth W.

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Bottled water sales rose 8%, profits 17% to record levels, leading Beverage operations to new profit high, offsetting decline in consumption of wine and spirits products.

Hicken, "and a good year for wine and spirits, although that industry is in a state of flux due to changing consumer trends, the impact of the decline of the dollar on imports and consolidations at the retail, distiller and distributor levels."

McKesson's Alhambra, Crystal and Sparkletts brands of bottled water, which make the division the nation's leading supplier of 5-gallon bottled water, serve over 500,000 residential and commercial accounts in California, Arizona, Texas and Nevada.

"With growing emphasis on packaged water sales, we had a growth rate of more than 20% in our 1- and 2.5-gallon packages sold in retail stores, as well as improvement in our Aqua-Vend water-vending business," says Douglas E. Nelson, Water division president.

In another move aimed at capitalizing on the retail market and on the boom in seltzer products, the Water division is introducing a unique seltzer package that could revolutionize the market.

"The package is made of plastic and incorporates a reusable plastic nozzle," Nelson says. "The bottle itself remains sealed, retaining carbonation after its initial use."

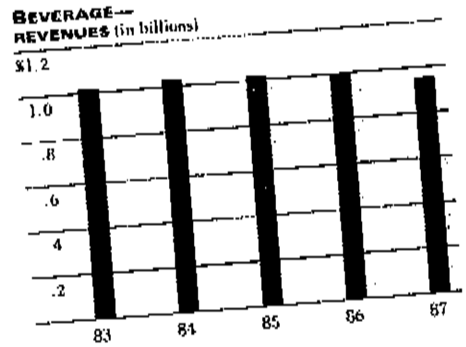
Revenues from wine and spirits' wholesale, import and domestic production operations declined 7% to $776 million and operating profit fell 7% to $29.8 million.

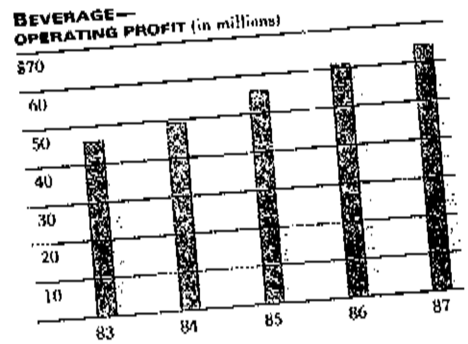
McKesson Wine & Spirits continued concentrating on strengthening its wholesale operations in well developed markets, says Robert S. Viscount, president of the unit that serves nearly 40,000 customers in 10 states.

"The industry has seen continuing drops in consumption of spirits as a result of changing lifestyles," he says. "There is also a great deal of consolidation taking place and independent liquor stores are being bought out by chain operations."

In the face of softening trends, increased competition and a sharp decline in the value of the dollar, wine and spirits imports René Junot wines, Ballantine's scotch and Mount Gay Rum increased market share.

To have the products his customers call for, Florida liquor store owner John Valenty (rear, center) relies on McKesson Wine & Spirits' (clockwise, from front) Sherrill Boldt, merchandising; Sharon Montgomery, warehouse; Millie Snidle, customer service; Tina Hemingway, computer operations; Bill Paris, driver, and Sam Castellano, sales.





"We consider wine and spirits an excellent business overall, with good cashflow and a high return on investment," says Field, adding:

"We intend to be the leading factor in the markets we serve.

"Everything we do, in every segment we serve, is designed to build on McKesson's position as America's leading distributor of consumer products."

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REPORTING SEGMENTS

(dollars in millions)

Years ended March 31	**1987**	1986	1985	1984	1983	1982
Drug & Health Care						
Revenues						
Drug & Health Care	**$4,774.4**	$4,039.5	$2,818.0	$2,443.7	$2,135.1	$1,870.2
PCS	**54.5**	39.4	31.8	26.8	21.9	16.9
Total	**4,828.9**	4,078.9	2,849.8	2,470.5	2,157.0	1,887.1
Percent increase	**18.4%**	43.1%	15.4%	14.5%	14.3%	13.4%
Operating Profit						
Drug & Health Care	**103.3**	101.0	67.1	59.4	61.2	54.8
PCS	**15.6**	10.1	6.6	5.0	3.7	2.3
Total	**118.9**	111.1	73.7	64.4	64.9	57.1
Percent increase	**7.0%**	50.7%	14.4%	(0.1)%	13.7%	27.6%
Percent of revenues	**2.5%**	2.7%	2.6%	2.6%	3.0%	3.0%
Average capital employed[1]						
Drug & Health Care	**639.9**	562.5	309.1	216.8	210.9	206.5
PCS	**9.6**	3.3	4.0	2.8	2.3	0.7
Total	**649.5**	565.8	313.1	219.6	213.2	207.2
Turnover[2]	**7.4**	7.2	9.1	11.3	10.1	9.1
Return[3]	**18.3%**	19.6%	23.5%	29.3%	30.4%	27.6%
Capital expenditures	**33.0**	25.2	16.3	22.3	21.4	17.6
General Merchandise						
Revenues						
General Merchandise	**773.1**	485.3	260.8	32.4		
Armor All	**107.0**	91.0	77.4	70.3	48.6	45.9
Total	**880.1**	576.3	338.2	102.7	48.6	45.9
Percent increase	**52.7%**	70.4%	229.3%	111.3%	5.9%	11.1%
Operating Profit						
General Merchandise	**12.3**	7.3	7.0	1.2		
Armor All	**35.8**	29.9	24.2	25.3	11.5	10.3
Total	**48.1**	37.2	31.2	26.5	11.5	10.3
Percent increase	**29.3%**	19.2%	17.7%	130.4%	11.7%	9.6%
Percent of revenues	**5.5%**	6.5%	9.2%	25.8%	23.7%	22.4%
Average capital employed[1]						
General Merchandise	**236.0**	129.3	60.1	6.3		
Armor All	**51.0**	55.7	52.3	33.0	23.6	22.0
Total	**287.0**	185.0	112.4	39.3	23.6	22.0
Turnover[2]	**3.1**	3.1	3.0	2.6	2.1	2.1
Return[3]	**16.8%**	20.1%	27.8%	67.4%	48.7%	46.8%
Capital expenditures	**8.5**	19.8	2.8	0.2	0.1	0.1
Beverage						
Revenues						
Wine & Spirits	**775.7**	832.8	886.3	919.5	873.3	859.9
Water	**181.1**	167.3	150.8	138.4	129.3	115.5
Total	**956.8**	1,000.1	1,037.1	1,057.9	1,002.6	975.4
Percent increase	**(4.3)%**	(3.6)%	(2.0)%	5.5%	2.8%	6.9%
Operating Profit						
Wine & Spirits	**29.8**	32.0	31.3	28.3	31.3	32.1
Water	**34.2**	29.3	24.4	21.3	14.7	18.2
Total	**64.0**	61.3	55.7	49.6	46.0	50.3
Percent increase	**4.4%**	10.1%	12.3%	7.8%	(8.5)%	17.0%
Percent of revenues	**6.7%**	6.1%	5.4%	4.7%	4.6%	5.2%
Average capital employed[1]						
Wine & Spirits	**80.7**	90.1	96.6	97.6	95.3	96.7
Water	**63.3**	60.6	59.0	58.2	56.6	44.2
Total	**144.0**	150.7	155.6	155.8	151.9	140.9
Turnover[2]	**6.6**	6.6	6.7	6.8	6.6	6.9
Return[3]	**44.4%**	40.7%	35.8%	31.8%	30.3%	35.7%
Capital expenditures	**20.3**	17.7	15.9	17.9	20.8	22.3

1 Net assets of the segment.
2 Revenues divided by average capital employed.
3 Operating profit divided by average capital employed.

SIX-YEAR HIGHLIGHTS

CONSOLIDATED OPERATIONS

(dollars and shares in millions except per share amounts)

Years ended March 31	**1987**	1986	1985	1984	1983	1982
Revenues	**$6,671.6**	$5,665.7	$4,236.7	$3,643.1	$3,224.6	$2,919.7
Percent increase	**17.8%**	33.7%	16.3%	13.0%	10.4%	11.2%
Operating profit	**231.0**	209.6	160.6	140.5	122.4	117.7
Percent increase	**10.2%**	30.5%	14.3%	14.8%	4.0%	22.0%
Percent of revenues	**3.5%**	3.7%	3.8%	3.9%	3.8%	4.0%
Average capital employed[1]	**1,300.0**	1,125.7	847.9	858.9	870.3	793.8
Gross profit	**979.2**	880.9	705.8	606.4	533.4	487.2
Percent of revenues	**14.7%**	15.5%	16.7%	16.6%	16.5%	16.7%
Interest expense	**44.4**	41.2	22.5	17.5	25.1	23.2
Income before taxes on income	**172.9**	144.0	120.7	107.0	91.8	92.2
Percent increase	**20.1%**	19.3%	12.8%	16.6%	(0.4)%	31.5%
Taxes on income	**76.4**	69.9	58.3	49.2	40.5	40.7
Effective tax rate	**44.2%**	48.5%	48.3%	46.0%	44.1%	44.1%
Income after taxes						
Continuing operations	**94.1**	74.1	62.4	57.8	51.3	51.5
Percent increase	**27.0%**	18.8%	8.0%	12.7%	(0.4)%	26.5%
Net income	**89.7**	77.9	65.0	68.7	56.5	73.5
Average stockholders' equity	**726.4**	609.4	554.1	532.3	492.3	456.9
Return[2]	**13.0%**	12.2%	11.3%	10.9%	10.4%	11.3%
Total dividends declared	**53.6**	46.8	43.4	42.5	40.3	35.8
Dividend payout ratio	**59.8%**	60.1%	66.8%	61.9%	71.3%	48.7%
Fully diluted earnings per common share[3]						
Continuing operations	**2.04**	1.76	1.63	1.50	1.42	1.48
Percent increase	**15.9%**	8.0%	8.7%	5.6%	(4.1)%	29.8%
Discontinued operations	**(.09)**	.08	.06	.26	.13	.59

CONSOLIDATED FINANCIAL POSITION

Customer receivables	**$ 523.5**	$ 461.3	$ 323.3	$ 281.2	$ 231.5	$ 220.1
Days of sales[4]	**28.3**	28.1	27.6	27.9	26.0	27.3
Inventories—LIFO cost	**733.8**	663.0	484.8	361.5	340.4	323.3
Inventories—FIFO cost	**901.6**	803.0	601.2	460.3	418.8	379.5
Days of sales[4]	**57.2**	58.2	61.5	54.8	56.4	56.6
Current assets	**1,451.0**	1,262.9	921.7	739.8	670.7	620.4
Current liabilities	**951.6**	808.1	595.5	526.3	438.0	404.2
Working capital	**499.4**	454.8	326.2	213.5	232.7	216.2
Percent of revenues[4]	**7.5%**	7.7%	7.7%	5.9%	7.2%	7.4%
Property, plant and equipment—net	**347.5**	337.5	247.0	200.1	166.9	148.8
Total assets	**2,207.6**	2,087.5	1,465.0	1,325.6	1,269.4	1,233.6
Total debt[5]	**451.7**	528.6	242.0	217.5	277.4	320.6
Stockholders' equity	**762.2**	695.8	558.6	552.7	510.3	481.5
Capital employed[1]	**1,311.3**	1,317.8	877.6	830.2	845.5	845.3
Ratio of debt to capital employed	**34.4%**	40.1%	27.6%	26.2%	32.8%	37.9%
Fully diluted shares[3]	**48.2**	44.5	40.9	41.2	39.2	37.3
Common shares outstanding[3]	**42.6**	41.0	36.0	35.7	33.4	32.0
Dividends per common share[3]	**1.26**	1.20	1.20	1.20	1.20	1.12
Book value per common share[3]	**17.73**	16.74	15.20	15.13	14.85	14.50

1 Consists of total debt, deferred taxes on income, minority interest in subsidiaries and stockholders' equity.
2 Based on income from continuing operations.
3 Restated to reflect the two-for-one split of the company's common stock.
4 Assumes major acquisitions occurred at beginning of year.
5 Total debt includes all interest-bearing debt and capitalized lease obligations.

The purpose of this Financial Review and Outlook is to present information that will promote an understanding of McKesson's past performance and prospects. Forward looking information is based on the company's fiscal 1988–1992 financial plan which was prepared by McKesson's management based upon a set of assumptions. These include continuation of inflation rates at current levels and a stable competitive and regulatory environment in the businesses in which the company operates. In addition, the plan assumes no significant acquisitions or divestitures. Management has used its best estimates and judgments in arriving at these and other assumptions used in the financial plan and considers them reasonable in light of current information and knowledge. However, as with any plan, actual results will depend on future conditions and are therefore inherently uncertain.

Over the five-year period from fiscal 1982 through 1987, McKesson restructured itself from a conglomerate to a business focused on the distribution of a wide variety of nondurable consumer products. During this period, the company divested its foods and chemical businesses that represented 37% of reported fiscal 1982 revenues, 40% of operating profit and 47% of the capital employed. These divestitures generated proceeds of more than $425 million.

During this same period, the company invested almost $600 million to acquire and expand new distribution companies. These included wholesale drug distributors, principally Spectro and S-P Drug, and the new service merchandising and office products businesses. By 1987, 72% of revenues, 45% of operating profits and 59% of operating units' average capital employed related to the drug distribution businesses. Substantially all of McKesson's capital is now invested in distribution-oriented activities.

Fiscal 1987 was a successful year on a number of counts. Earnings from continuing operations for the year of $2.04 per fully diluted share were 16% higher than in fiscal 1986. Per share earnings included 22 cents of special items, reflecting the gain from the initial public offering of PCS stock which was partially offset by a $10 million contribution to the McKesson Foundation. Net income from continuing operations was up 27% to $94.1 million from $74.1 million in fiscal 1986. Return on average stockholders' equity was 13.0%, up from 12.2% in fiscal 1986, while the debt to capital ratio at year end was reduced to 34.4% from 40.1% at the end of the previous year. However, the fourth quarter results were below expectations.

Earnings per share of 35 cents in the fourth quarter were 3 cents less than in the prior year period and about 9 cents below expected levels. The shortfall was primarily due to an increase in cost of sales because of significant increases in pharmaceutical prices in the final months of the fiscal year and certain general merchandise inventory writedowns. The company uses the last-in, first-out (LIFO) method of inventory accounting, which charges the most recent cost of merchandise purchased to cost of sales. Consequently, when price increases occur late in the year, the recorded increase in cost of sales cannot be recovered during the period by raising prices to customers. Although the LIFO accounting method reduces reported profit, it benefits the company by decreasing income taxes and thus preserving cash. The effect of LIFO in the years since adoption in fiscal 1980 has been to reduce income taxes by more than $80 million, thereby providing non-interest bearing funds to finance the company's businesses.

Revenue Growth

Fiscal 1987 revenues increased $1 billion, or 17.8% to $6.7 billion. The table below identifies the components of revenue growth:

Years ended March 31	**1987**	1986	1985	1984	1983
Existing businesses					
Real volume growth	**4.9%**	6.8%	3.5%	5.0%	3.5%
Price increases	**4.8**	4.4	4.8	5.4	6.9
Growth from acquired businesses	**8.1**	22.5	8.0	2.6	
Total revenue growth	**17.8%**	33.7%	16.3%	13.0%	10.4%

The practice in the distribution businesses is to pass on to customers price increases from suppliers.

Revenue of the Drug & Health Care segment increased 18% to $4.8 billion in fiscal 1987. Fiscal 1987 revenues include approximately $1 billion in bulk sales of pharmaceutical products to retail drug chain warehouses, up 30% from the prior year. These bulk sales have significantly lower gross margins than the company's other sales. The revenue increase was primarily attributable to a 19% increase in distribution sales resulting from 9% real volume growth (of which 4% was due to growth in bulk sales and 5% from other sales), 6% from price increases and 4% due to acquisitions.

The 53% increase in General Merchandise revenue in fiscal 1987 to $880 million was due to a 97% rise in service merchandising sales. The gain in service merchandising was attributable to 12% in real volume growth and 2% in price increases, with the balance due largely to the inclusion of a full year's performance of Mass Merchandisers, Inc., acquired in October 1985.

Revenue of the Beverage segment declined 4% to $957 million in fiscal 1987. Revenue of the bottled water operations increased 8% to $181 million as a result of 4% real volume growth and a 4% price increase. Offsetting the increase in bottled water was a revenue decline in the wine and spirits businesses of 7% to $776 million in fiscal 1987 as a result of a 14% decline in real volume growth partially offset by a 7% increase in prices which included the effect of a liquor excise tax increase in October 1985 and higher costs of imports. The decline in real volume was due in large measure to the sale of several wine and spirit houses in the second half of fiscal 1986 and the impact of the decline in the U.S. dollar on the prices of the company's imported products.

McKesson expects a continuation of aggregate annual revenue growth of 10% from the existing businesses during the financial plan period. Half of the growth arises from anticipated price increases and half from real volume. In the event actual price increases differ from those assumed, the company would expect a commensurate change in revenue growth. Modest revenue growth from acquisitions is expected to continue in service merchandising.

Operating Profit and Margins

Operating profit increased in each of the company's three business segments in fiscal 1987. The 7% rise in operating profit of the Drug & Health Care segment to $118.9 million was primarily attributable to a gain of $5.5 million to $15.6 million in the operating profit of PCS. The $10.9 million increase in the operating profit of the General Merchandise segment to $48.1 million was the result of gains in the service merchandising business due largely to acquisitions and a $5.9 million increase to $35.8 million from Armor All Products. These gains were partially offset by increased losses in the office products distribution business related to computerization, reconfiguration of facilities and essentially flat sales. It is anticipated that several more years will be required to reach an acceptable level of profitability in office products. Operating profit of the Beverage segment increased $2.7 million to $64.0 million. The rise was due to a gain of $4.9 million to $34.2 million in bottled water operations, offset by a decline of $2.2 million to $29.8 million in wine and spirits results.

The table below identifies the components of operating margins:

As a percent of sales	**1987**	1986	1985	1984	1983
Gross margin	**14.7%**	15.6%	16.7%	16.7%	16.6%
Operating expense	**11.9**	12.6	13.6	13.7	13.4
Operating margin	**2.8%**	3.0%	3.1%	3.0%	3.2%

The decline in operating margin relates to a shift in overall company sales mix to the wholesale drug operations which have a lower gross margin than the company's other businesses and which have experienced gross margin declines. The gross margin of the wholesale drug operations declined from 8.2% in fiscal 1986 to 7.4% in fiscal 1987. This resulted from competition for market share and an increase in bulk pharmaceutical sales to chain warehouses and hospital accounts, both of which are at lower than normal gross margins. The bottom line effect of the gross margin decline has been partially offset by improved productivity which has reduced operating expense as a percent of sales. In the wholesale drug operations, operating expense as a percent of sales declined from 5.8% in fiscal 1986 to 5.3% in fiscal 1987.

Overall operating margins are expected to continue at about 3%. The decline in gross margins is expected to moderate, reflecting a shift in sales mix to the service merchandising, Armor All and PCS businesses which have higher margins. In addition, anticipated productivity improvements will continue to reduce the operating expense ratio.

Initial Public Offerings and Special Items

In October 1986, the company's Armor All Products subsidiary issued 3,500,000 common shares to the public resulting in net proceeds of $40.2 million and reducing McKesson's ownership interest to 83.3%. This capital transaction increased consolidated equity by $30.4 million. In November 1986, the company sold 2,000,000 common shares of its PCS subsidiary to the public, reducing McKesson's ownership interest to 86.2%. The company received net after-tax proceeds from the sale of $17 million, resulting in a $15.6 million after-tax gain.

At the time of the PCS stock sale, the company made a $10 million special contribution to the McKesson Foundation, which partially offset the $23.1 million pretax gain recorded on the stock sale. The gain on the PCS stock sale and the special contribution have been classified as special items in the company's financial statements. The net effect of these special items increased pretax income by $13.1 million and net income by $10.6 million, or 22 cents per share.

Discontinued Operations

During fiscal 1987, McKesson sold its chemical businesses. Prior years' financial information has been restated to include the chemical businesses in discontinued operations. The fiscal 1987 $4.4 million after-tax loss in discontinued operations included after-tax income of $2.3 million from operations and an after-tax loss of $6.7 million on dispositions. Approximately half the loss on dispositions resulted from the sale of chemical operations after providing for cleanup costs at certain storage and disposal sites and other retained liabilities. Also an additional provision was made for potential multiemployer pension liabilities relating to the company's former dairy operations divested in fiscal 1983.

Capital Expenditures

Capital expenditures by major businesses were as follows:

Years ended March 31 (in millions)	**1987**	1985–87 Avg.
Wholesale Drug	**$27**	$21
General Merchandise Distribution	**8**	10
Water	**18**	16
Other	**13**	19
Total	**$66**	$66

Annual capital expenditures in the financial plan are expected to substantially exceed the average spending levels of the past three years. Plans include the construction of seven distribution centers combining various drug, service merchandising, office products and wine and spirits distribution operations. These distribution centers will range in size from about 150,000 square feet to 600,000 square feet, and will incorporate state-of-the-art materials handling systems that are expected to significantly improve productivity. Actual future expenditure levels will depend on construction timing, realized volume growth and operating performance.

Operating Working Capital

The following table identifies year-end operating working capital (trade receivables plus LIFO inventory less trade payables) as a percent of sales.

Years ended March 31 (in millions)	**1987**	1985–87 Avg.
Wholesale Drug	**8.2%**	7.9%
General Merchandise Distribution	**17.0%**	17.9%
Wine & Spirits Distribution	**8.6%**	8.7%
Total Company	**9.3%**	9.2%

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At March 31, 1987, McKesson's investment in operating working capital was $616 million. Operating working capital as a percent of sales is expected to decline during the plan period as a result of improved receivables management, greater inventory turnover and increasing LIFO reserve, along with an increase in the relative level of accounts payable.

Cashflow

Cashflow before financing activities, acquisitions and divestitures was as follows:

Years ended March 31 (in millions)	1987	1985–87 Avg.
Cash from operations before working capital changes	**$128**	$127
Working capital changes	**(51)**	(57)
Operating cashflow	**77**	70
Capital expenditures—net	**(60)**	(60)
Operating cashflow after capital expenditures	**17**	10
Dividend distributions	**(54)**	(48)
Net	**$ (37)**	$ (38)

During the five-year plan period, operating cashflow is expected to increase due to higher profits and lower anticipated working capital additions. These favorable cashflows are expected to be partially offset by higher capital expenditures. The resulting operating cashflow after capital expenditures is expected to approximate planned dividend distributions during the plan period.

Capitalization

The company's capitalization at March 31 included the following:

(in millions)	1987	1986	1985
Short-term borrowings	**$ 15.1**	$ 57.3	$ 72.1
Term debt	**361.5**	378.9	87.0
Convertible debt	**75.1**	92.4	82.9
Total debt	**451.7**	528.6	242.0
Deferred taxes and minority interest	**97.4**	93.4	77.0
Stockholders' equity—net	**762.2**	695.8	558.6
Total capitalization	**$1,311.3**	$1,317.8	$877.6
Debt to capital ratio at March 31	**34.4%**	40.1%	27.6%
Average interest rate			
Short-term borrowings	**7.2%**	9.0%	10.2%
Other debt	**9.4**	9.4	9.1

In fiscal 1986, the company financed its wholesale drug acquisitions by issuance of term debt totalling approximately $250 million which had the effect of raising the debt to capital ratio to 40% at March 31, 1986. The ratio decreased at March 31, 1987, as a result of cashflow generated from operations and divestitures.

Debt maturities of $220 million during the plan period and planned share repurchases will require new debt amounting to approximately $300 million over the next five years. These requirements are expected to be met by additional term debt and short-term borrowings supported by the company's $180 million revolving line of credit.

Stockholders' Equity

At March 31, 1987, there were 120,000,000 shares of $2 par value common stock authorized of which 42,515,487 were outstanding net of treasury shares. In October 1986, the company's common stock was split two-for-one, effected in the form of a dividend.

Fully diluted shares used in computing earnings per share were 48.2 million in fiscal 1987 compared with 44.5 million in fiscal 1986. The increase was due primarily to shares issued for the acquisition of MMI in October 1985.

The company repurchased 1.2 million common shares at an average price of $31.90 per share in fiscal 1987 and anticipates repurchases of 2.4 million shares in fiscal 1988. The repurchases are designed to offset the effect of the issuance of shares through employee incentive plans including the company's sale to the McKesson Employee Stock Ownership Plan in fiscal 1987 of 1 million common shares for $30.2 million, and conversion of other securities. The objective of these repurchases is to reduce outstanding common shares to approximately 41 million shares from the fiscal 1987 year-end level of 42.5 million. The company expects fully diluted shares to average approximately 47 million shares in fiscal 1988.

Acquisitions

Acquisitions in fiscal 1987 included two service merchandising businesses, Millbrook Distributors, Inc., and Carlstrom Foods, Inc., and two other businesses for a total of $23.3 million in cash. In fiscal 1986, the company acquired Spectro Industries, Inc., and S-P Drug Co., Inc., for a total of $254 million in cash, and Mass Merchandisers, Inc., for approximately 4.2 million shares of the company's common stock then valued at $96 million. The Spectro, S-P Drug and MMI acquisitions resulted in goodwill of $229 million which is being amortized over 40 years.

Pension Plans

Substantially all full-time employees of the company not covered by union-sponsored multiemployer plans are covered under company-sponsored defined benefit retirement plans, profit sharing incentive plans and an ESOP. At March 31, 1987, the $181 million market value of the assets of the defined benefit plans exceeded the projected benefit obligation for services rendered to date by $9.2 million. A total of 3.7 million McKesson shares, or 8.7% of the shares outstanding, were held for employees in the profit sharing and ESOP trusts at March 31, 1987.

Income Taxes

The reconciliation between the company's effective tax rate on income from continuing operations and the statutory federal income tax rate is as follows:

Years ended March 31	**1987**	1986	1985
Statutory federal income tax rate	**46.0%**	46.0%	46.0%
State and local income taxes	**4.6**	4.7	4.8
Nondeductible amortization	**2.5**	2.7	1.7
Capital gains	**(2.9)**	(0.6)	0.1
ITC and tax benefit leases	**(3.6)**	(3.1)	(2.0)
Other—net	**(2.4)**	(1.2)	(2.3)
Effective tax rate	**44.2%**	48.5%	48.3%

The company's effective tax rate in fiscal 1987 benefited from the capital gain on the sale of stock of the PCS subsidiary. Implementation of changes required by the Tax Reform Act of 1986 had no significant impact on the results for fiscal 1987 as the loss of the Investment Tax Credit was slightly more than offset by the favorable effect of the new law on tax benefit lease investments.

The new tax act is expected to result in slightly lower future tax payments as a percent of pretax income as the reduction or elimination of various tax benefits is expected to be more than offset by reductions in the statutory tax rate. The company expects its effective tax rate to decline below 44% in fiscal 1988 and to be approximately 41% in fiscal 1989 and beyond based on the new tax law.

Financial Objectives

The company's principal financial objectives are discussed in the Letter to Shareholders and Employees and are detailed below.

Years ended March 31	**1987**	1985–87 Avg.	**Financial Objectives**
Growth in Earnings Per Share	**16%**	11%	**10–12%**
Dividend Payout Ratio	**56%**	64%	**50%**
Debt to Capital at Year End	**34%**	34%	**40%**
Return on Equity	**13%**	12%	**15%**

If fiscal 1987 results are computed without the special items, the growth in earnings per share and return on equity ratios for fiscal 1987 are 3% and 12%, respectively, and the average ratios for fiscal 1985–87 are 7% and 12%, respectively. The plan indicates that the objectives are capable of being attained by fiscal 1990.

Management's Responsibility

McKesson Corp. is responsible for the preparation and accuracy of the financial statements and other information included in this report. The consolidated financial statements from which the accompanying condensed financial statements were derived have been prepared in conformity with generally accepted accounting principles using, where appropriate, management's best estimates and judgments.

In meeting its responsibility for the reliability of the financial statements, the company depends on its system of internal accounting control. The system is designed to provide reasonable assurance that assets are safeguarded and that transactions are executed as authorized and are properly recorded. The system is augmented by written policies and procedures and monitored by an internal audit department.

The Board of Directors reviews the financial statements and reporting practices of the company through its Audit Committee, which is composed entirely of directors who are not officers or employees of the company. The committee meets regularly with the independent auditors, internal auditors and management to discuss audit scope and results and to consider internal control and financial reporting matters. Both the independent and internal auditors have unrestricted access to the Audit Committee. The entire Board of Directors reviews the company's financial performance and financial plan.

Thomas W. Field, Jr.

Thomas W. Field, Jr.
President and
Chief Executive Officer

Alan Seelenfreund

Alan Seelenfreund
Executive Vice President
and Chief Financial Officer

OPINION OF INDEPENDENT AUDITORS

Deloitte Haskins+Sells

The Stockholders and Board of Directors of McKesson Corporation:

We have examined, in accordance with generally accepted auditing standards, the consolidated financial statements of McKesson Corporation and subsidiaries as of March 31, 1987, 1986 and 1985 and for the years then ended appearing in Appendix A to the proxy statement for the 1987 annual meeting of stockholders of the Corporation (not presented herein). In our opinion dated May 22, 1987, also appearing in that proxy statement, we expressed an unqualified opinion on those consolidated financial statements.

In our opinion, the information set forth in the accompanying condensed consolidated balance sheets as of March 31, 1987, 1986 and 1985 and the related condensed statements of consolidated income and changes in consolidated financial position for the years then ended is fairly stated in all material respects in relation to the consolidated financial statements from which it has been derived.

Deloitte Haskins & Sells

San Francisco, California
May 22, 1987

CONDENSED STATEMENTS OF CONSOLIDATED INCOME

(in millions except per share amounts)

Years ended March 31	1987	1986	1985
Revenues	**$6,671.6**	$5,665.7	$4,236.7
Costs and Expenses	**6,511.8**	5,521.7	4,116.0
Income Before Special Items and Taxes on Income	**159.8**	144.0	120.7
Special items*	**13.1**		
Income Before Taxes on Income	**172.9**	144.0	120.7
Taxes on income	**76.4**	69.9	58.3
Income Before Minority Interest	**96.5**	74.1	62.4
Minority interest in net income of subsidiaries	**(2.4)**		
Income After Taxes			
Continuing operations	**94.1**	74.1	62.4
Discontinued operations	**(4.4)**	3.8	2.6
Net Income	**$ 89.7**	$ 77.9	$ 65.0
Earnings Per Common Share			
Fully diluted earnings			
Continuing operations	**$2.04**	$1.76	$1.63
Discontinued operations	**(.09)**	.08	.06
Total	**$1.95**	$1.84	$1.69
Primary earnings			
Continuing operations	**$2.17**	$1.88	$1.73
Discontinued operations	**(.10)**	.10	.07
Total	**$2.07**	$1.98	$1.80
Shares on Which Earnings Per Common Share Were Based			
Fully diluted	**48.2**	44.5	40.9
Primary	**43.1**	39.1	35.7

Note: Prior years' financial information has been restated to include the chemical businesses in discontinued operations.
Income after taxes from discontinued operations in 1987 includes a $3.6 million loss on the sale of the chemical businesses.
*1987 includes $23.1 million gain on sale of PCS, Inc., stock less $10 million special contribution to the McKesson Foundation.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions)

March 31	1987	1986	1985
ASSETS			
Cash and short-term investments	**$ 47.7**	$ 44.6	$ 44.4
Receivables	**613.1**	517.1	368.0
Inventories	**733.8**	663.0	484.8
Prepaid expenses	**56.4**	38.2	24.5
Total current assets	**1,451.0**	1,262.9	921.7
Net property, plant and equipment	**347.5**	337.5	247.0
Goodwill and other intangibles	**311.6**	317.9	96.1
Other assets	**97.5**	169.2	200.2
Total	**$2,207.6**	$2,087.5	$1,465.0
LIABILITIES AND STOCKHOLDERS' EQUITY			
Accounts and drafts payable	**$ 701.2**	$ 584.2	$ 469.0
Current portion of long-term debt	**55.3**	38.4	8.1
Accrued liabilities	**195.1**	185.5	118.4
Total current liabilities	**951.6**	808.1	595.5
Long-term debt	**396.4**	490.2	233.9
Deferred taxes on income	**84.5**	93.4	77.0
Minority interest in subsidiaries	**12.9**		
Net stockholders' equity	**762.2**	695.8	558.6
Total	**$2,207.6**	$2,087.5	$1,465.0

Note: Prior years' financial information has been restated to include the chemical businesses in discontinued operations.

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CONDENSED STATEMENTS OF CHANGES IN CONSOLIDATED FINANCIAL POSITION

(in millions)

Years ended March 31	1987	1986	1985
Operations			
Income after taxes from continuing operations	**$ 94.1**	$ 74.1	$ 62.4
Items not affecting working capital			
Depreciation and amortization	**55.4**	49.7	38.4
Deferred taxes on income	**(6.5)**	11.7	17.0
After-tax gain on sale of subsidiary stock	**(15.6)**		
Other	**.9**	(1.4)	(0.5)
Total from continuing operations before changes in working capital	**128.3**	134.1	117.3
Decrease (Increase) in operating working capital excluding cash, short-term investments and borrowings	**(51.5)**	(68.2)	(50.9)
Cash provided from continuing operations	**76.8**	65.9	66.4
Discontinued Operations	**(15.7)**	19.4	17.0
Dividends Declared	**(53.6)**	(46.8)	(43.3)
Investments			
Capital expenditures	**(65.9)**	(76.7)	(56.6)
Properties sold	**5.9**	9.4	4.0
Acquisition of businesses, less cash and short-term investments acquired	**(23.3)**	(335.8)	(67.4)
Proceeds from sales of discontinued operations	**95.0**	10.1	69.0
Other	**5.0**	15.6	0.4
Total investments	**16.7**	(377.4)	(50.6)
Financing Activities			
Proceeds from issuance of debt	**39.2**	269.3	96.0
Repayment of debt	**(117.0)**	(38.5)	(72.4)
Proceeds after-tax from sale/issuance of subsidiary stock	**57.1**		
Capital stock transactions			
Issuances	**48.4**	117.2	26.0
Conversion of debentures	**17.3**	0.6	0.8
Treasury stock acquired	**(37.1)**	(10.6)	(23.7)
ESOP note and guarantee	**(29.0)**	1.1	(17.9)
Total financing activities	**(21.1)**	339.1	8.8
Increase (Decrease) in Cash and Short-Term Investments	**$ 3.1**	$ 0.2	$ (1.7)

Note: Prior years' financial information has been restated to include the chemical businesses in discontinued operations.

Shareholder Information

Annual Meeting to be Held July 22 in San Francisco

The annual meeting of McKesson shareholders will be held at 10:00 a.m. on Wednesday, July 22, 1987, at the Masonic Memorial Auditorium, 1111 California Street, San Francisco. A proxy card and proxy statement will be mailed to all shareholders approximately five weeks before the meeting. Proxy cards should be signed, dated and returned promptly to ensure that all shares are represented at the meeting and voted in accordance with the instructions of their holders. Shareholders are encouraged to attend the annual meeting.

About Your Securities and Records

The common and preferred stocks of McKesson Corp. are listed on the New York and Pacific Stock Exchanges and are quoted in the daily stock tables carried by most newspapers. The 6% and 9¾% convertible subordinated debentures of McKesson Corp. are listed on the New York Stock Exchange. The ticker symbol for McKesson common stock is MCK, and Series A preferred stock is listed as MCK Pr. The ticker symbol for the 6% debentures is McK 94 and for the 9¾% debentures is McK 06. The stock table abbreviation for the common stock is McKess, for Series A preferred it is McK pf, for the 6% debentures it is McKes 6s94 and for the 9¾% debentures it is McKes 9¾06.

Morgan Shareholder Services Trust Company, 30 West Broadway, New York, NY 10015, acts as transfer agent, registrar and dividend paying agent for McKesson stock and maintains all shareholder records for the corporation. Citibank, N.A., 111 Wall St., New York, NY 10005, acts as transfer and conversion agent for McKesson 6% debentures; and Bank of America, P.O. Box 37002, San Francisco, CA 94137, acts as transfer agent for McKesson 9¾% debentures.

Shareholders may obtain information relating to their share position, dividends, transfer requirements, lost certificates, dividend reinvestment accounts and other related matters by telephoning Morgan Shareholder Services Trust Company's "Telephone Response Center" at (212) 587-6515. Shareholders must provide their tax identification number, the name(s) in which their shares are registered and their record address when they request information. This service is available to all shareholders Monday through Friday 9:00 a.m. to 5:00 p.m. EST. Shareholders also may obtain this information by writing to Assistant Secretary, McKesson Corp., One Post Street, San Francisco, CA 94104.

Dividend Payments Mailed Quarterly

"Shareholder of record" refers to a shareholder who is entitled to receive a dividend on the "payable date" if he or she was listed as a McKesson shareholder on the "record date" (approximately 30 days prior to the payable date for common stock and 15 days for preferred stock).

Quarterly dividends are mailed with the intent of reaching shareholders of common stock on the first business day of January, April, July and October, and shareholders of preferred stock on the 15th of March, June, September and December. Postal delays may cause actual receipt dates to vary.

Free Automatic Dividend Reinvestment

McKesson's Dividend Reinvestment Plan offers common and Series A preferred shareholders of record a cost-free method to purchase additional shares of McKesson common stock without paying a brokerage commission or other service fees.

Participants in the plan may choose to have all or part of their dividends automatically reinvested, make additional cash payments or do both in purchasing shares of McKesson common stock. All brokerage expenses are paid by McKesson. Personal record-keeping is simplified by an account statement that is mailed to participants.

For more information and an authorization form, contact Assistant Secretary, McKesson Corp., One Post Street, San Francisco, CA 94104; or call (415) 983-8367.

Tax Reports on Dividend Income

McKesson is required to report to the Internal Revenue Service the total amount of shareholder dividends paid to each shareholder during the preceding year. Form 1099, which contains the information supplied by the transfer agent to the IRS for each shareholder account, and Form 1087, which covers dividends reinvested under the Dividend Reinvestment Plan and brokerage fees and commissions paid by McKesson under the plan, will be mailed to shareholders after the end of each calendar year.

Lost Checks and Certificates

Dividend checks are often delayed or lost when a shareholder moves and does not notify the transfer agent.

It is easy to make an address change. On every dividend check, there is a circle which may be punched out to indicate a change of address. In processing cancelled checks, the computer sorts out punched checks to alert the transfer agent to change the records.

Lost certificates may be replaced only after issuance of an indemnity bond, for which a premium of about 2% of the market value of the stock is charged by an insurance company. Shareholders should generally deal directly with their brokers and the transfer agent who maintains shareholder records. However, if a problem arises that they can't resolve, McKesson's assistant secretary is available for assistance.

Additional Information Available to Shareholders

Questions about activities of the company and operating results should be directed to Director of Investor Relations, McKesson Corp., One Post Street, San Francisco, CA 94104; or call (415) 983-9044.

Responses to questions frequently asked by McKesson shareholders are included in a brochure available by writing to Corporate Relations, Box B, McKesson Corp., One Post Street, San Francisco, CA 94104.

Form 10-K, Proxy Statement Available

Shareholders may obtain copies of the corporation's Form 10-K annual report to the Securities and Exchange Commission and Proxy Statement, which includes audited financial statements, without charge. Requests for this information should be addressed to Corporate Relations, Box K, McKesson Corp., One Post Street, San Francisco, CA 94104.

McKesson Corp.
One Post Street
San Francisco, CA 94104
(415) 983-8300

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Fiscal Year Ended March 31, 1987 | **Commission File Number: 1-1435**

McKESSON CORPORATION

(Exact Name of Registrant as Specified in its Charter)

MARYLAND **(State or Other Jurisdiction of Incorporation or Organization)**	13-1027923 **(I.R.S. Employer Identification No.)**
McKesson Plaza - One Post Street, San Francisco, CA **(Address of Principal Executive Offices)**	94104 **(Zip Code)**
Registrant's Telephone Number, Including Area Code	(415) 983-8300

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $2 par value	New York Stock Exchange Pacific Stock Exchange
Cumulative Preferred Stock (Convertible), $35 par value; $1.80 Series A	New York Stock Exchange Pacific Stock Exchange
6% Convertible Subordinated Debentures due June 15, 1994	New York Stock Exchange
9¾% Convertible Subordinated Debentures due March 15, 2006	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Aggregate market value of voting stock held by nonaffiliates of the registrant at May 15, 1987: $1,374,582,805.

Number of shares of common stock outstanding at May 15, 1987: 41,987,334.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on July 22, 1987 are incorporated by reference into Part III of this report.

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PART I

ITEM 1. Business

(a) General Development of Business

During the year, McKesson Corporation (the "Company" or the "Registrant") reduced its ownership interest in its Armor All Products Corporation subsidiary to 83.3% and its PCS, Inc. subsidiary to 86.2% through initial public offerings and sold its chemical businesses. Effective October 1, 1986, the Company's common stock was split two-for-one. Previously reported financial information has been restated to conform to the Company's new business segment presentation, to give effect to the stock split, and to reflect the discontinuance of its chemical operations. Information concerning discontinued operations appears in financial note 6, "Discontinued Operations" on pages A-18 and A-19 of this Form 10-K Annual Report.

During the past fiscal year, there were no other significant developments with respect to the business of the Company taken as a whole.

Developments which could be considered significant to individual segments of the business are described under (c) "Narrative Description of Business" on pages 1 through 4 of this report.

(b) Financial Information About Industry Segments

Financial information for the three years ended March 31, 1987 appears in financial note 12, "Segments of Business," on pages A-25 and A-26 of this Form 10-K Annual Report.

(c) Narrative Description of Business

(1) *Description of Segments of Business*

The principal segments of the Company's business are as follows:

Drug & Health Care
General Merchandise
Beverage

Drug & Health Care

Products & Markets

Wholesale Distribution of Drug & Health Care Products—McKesson is the nation's largest distributor of ethical and proprietary drugs, toiletries and sundries. Its products are distributed to chain and independent drug stores and hospitals throughout the United States. This business requires large inventories. Significant amounts of these inventories are financed by related payables.

Using the name "Economost" and a number of related service marks, the McKesson Drug Company has placed increased emphasis on its electronic order entry system and a wide range of computerized asset management services for drug retailers and hospitals.

In the northeast area of the U.S., the Company also does business through two subsidiaries, Spectro Industries, Inc. and S-P Drug Co., Inc.

Prescription drug claims processing and related consulting services—PCS, Inc. ("PCS"), a majority-owned subsidiary, processes payments of prescription drug claims submitted by participating member pharmacies on behalf of customers who are covered by prescription drug benefit programs. PCS processes these claims on behalf of insurance companies or employers which underwrite the benefit plans. PCS has strong competition from similar processors and also from some fully integrated underwriters who process their own claims.

Voluntary Marketing Program—Valu-Rite Pharmacies provides retail drug stores with a common marketing identity, group advertising, purchasing programs and promotional merchandise. At year end approximately 2,700 stores were participating in these voluntary programs. Similar programs are available to independent drug stores through other drug wholesalers.

Home Health Care—Through Sunmark, Sci-O-Tech and AMBI Medical Management Systems, the Company supplies durable medical equipment to the health care industry and provides computerized billing services to home health care equipment dealers.

Computer Services, First Aid Products and Veterinary Supply Distribution—3 PM is a supplier of computer systems and software for pharmacists, florists and other businesses. Zee Medical, Inc. is a distributor of first-aid products and supplies to industrial and commercial customers through a network of local distributors. McKesson Veterinary Services distributes animal health products to veterinarians.

International—Through a wholly-owned nonconsolidated subsidiary company, McKesson has interests in companies engaged in the distribution of pharmaceuticals, health and beauty aids and related products in Central and South America.

Competition

In every area of operations, the Drug & Health Care segment faces strong competition both as to price and service from regional and local full-line, short-line and specialty wholesalers, service merchandisers, and from manufacturers engaged in direct distribution. Although computerized services to drug stores are available from many of the segment's competitors, the range and scope of the segment's services have been a positive competitive factor in recent years.

General Merchandise

Products & Markets

The general merchandise segment includes service merchandising operations, office products distribution operations and the Company's majority-owned subsidiary, Armor All Products Corporation.

Service Merchandising—The service merchandising business distributes health and beauty aids and general merchandise to supermarkets and drug and convenience stores. The distribution service provided normally includes review of inventory levels and restocking of retail sales areas for customers.

The three major service merchandising units are:

Mass Merchandisers, Inc., headquartered in Harrison, Arkansas, is engaged in business principally in the Midwest and South.

Rawson Drug & Sundry Company, headquartered in San Leandro, California, is engaged primarily in distribution to supermarkets in Arizona, California, Idaho, Montana, Nevada, Oregon and Washington.

Millbrook Distributors, Inc., acquired in fiscal 1987, is headquartered in Leicester, Massachusetts and is engaged in business principally in the East.

Office Products Distribution—Through McKesson Office Products, the Company distributes office and information processing supplies and furniture to office supply dealers from 17 warehouses nationwide.

Appearance-Protection Products—The Company is engaged through its majority-owned Armor All Products Corporation subsidiary in marketing branded consumer products primarily in the automotive aftermarket. The Company's principal product, Armor All Protectant®, protects and beautifies natural and synthetic polymer materials. It is used primarily for the beautification and protection of certain automobile surfaces. Armor All Protectant is mixed and packaged by contract packagers and marketed primarily through independent manufacturer's representatives to large mass merchandise retailers, auto supply stores, hardware and home improvement centers and a variety of other outlets.

Competition

In the service merchandising and office products operations, the segment faces strong competition both as to price and service from regional and local service merchandisers and specialty wholesalers McKesson Office Products faces strong competition from four larger wholesalers and many smaller local or regional wholesalers.

Beverage

Products & Markets

Bottled and Vended Water—The Water Division is primarily engaged in the processing and sale of bottled drinking water in the metropolitan areas of Los Angeles, San Diego, San Francisco, Phoenix, Las Vegas, Dallas and Lubbock, Texas through its Sparkletts, Alhambra, and Crystal brands. The Water Division also sells and leases processed water dispensers and coolers. In addition, under the Aqua-Vend trademark, it sells processed water through coin operated vending machines in California, Arizona, Nevada, Texas, Louisiana and Florida.

Wholesale Wine & Spirits Distribution—McKesson Wine & Spirits Co. is the largest wholesaler of wine and spirits in the United States. Sales are made to liquor stores, restaurants, bars and other establishments from the Company's distribution centers located in 10 states throughout the United States. Suppliers of wine and spirits to the Company's wholesale units vary from market to market, as do the specific brands of the various suppliers.

Importing, Marketing and Bottling—"21" Brands, Inc. and Carlton Importing Company are importers and marketers of certain alcoholic beverages. Carlton Importing Co. imports and markets beer including St. Pauli Girl. Mohawk Liqueur Corporation also imports and markets alcoholic beverages and bottles and markets liqueurs, gin and vodka under the Mohawk label. Mohawk also bottles for other companies. The Company also owns international operations that blend and bottle liqueurs and other products.

Competition

The Water Division faces competition in both price and service in all its locations. The wholesale wine and spirits units are engaged in sales to retail outlets in local markets in vigorous competition with a limited number of other wholesalers in each market. There is also vigorous competition among wholesalers to obtain distribution rights from suppliers, particularly as to products which are market leaders. In many instances, distribution rights are terminable by the supplier on short notice. The supplier units of the segment are likewise met with intense competition throughout the United States from other suppliers engaged in sales to wholesalers on a national or regional basis.

Operations of the wine and spirits industry are subject to extensive federal regulation and, by virtue of the 21st Amendment to the U.S. Constitution, extensive state regulation. Certain aspects of such regulation have recently been challenged in the courts or have been subject to legislative reconsideration. The Company currently is unable to predict the effects of any such possible changes in the laws and regulations on competition within the industry.

Other Information About the Business

Customers—No material part of the business of any segment of the Company is dependent upon a single or a very few customers, the loss of any one of which would have a material adverse effect on the segment.

Environmental Legislation—As noted in item 1(a) above, the Company sold its Chemical operations in fiscal year 1987. Those operations were affected by governmental regulations relating to protection of the environment. In connection with the disposition of these operations, the Company retained responsibility for certain environmental contingencies and has established reserves for them. In view of these dispositions, the Company does not anticipate making substantial capital expenditures for environmental control facilities in the future. The amount of capital expenditures for environmental control facilities in fiscal 1987 was not material.

Employees. At March 31, 1987, the Company employed approximately 17,000 persons in its continuing operations.

(d) Financial Information About Foreign and Domestic Operations and Export Sales

The Company's international operations are described in Item 1(c) (1) under the descriptions of the Drug & Health Care and the Beverage segments. Additional financial information regarding foreign investments appears in financial note 6, "Discontinued Operations", on pages A-18 and A-19 of this Form 10-K Annual Report. The foreign operations are not material to the Company's operations taken as a whole.

ITEM 2. Properties

Because of the nature of the Company's principal businesses, plant and warehousing facilities are operated in widely dispersed locations. The Company considers its operating properties to be in satisfactory condition and effectively utilized.

The Company's distribution businesses are generally operated from warehouses located in the areas served. The warehouses are typically owned or leased on a long-term basis.

Information as to lease commitments is included in financial note 8, "Lease Obligations" on pages A-20 and A-21 of this Form 10-K Annual Report.

ITEM 3. Legal Proceedings

In addition to commitments and obligations in the ordinary course of business, the Company is subject to various claims, other pending and possible legal actions for products liability and other damages, investigations relating to governmental laws and regulations, contingent liability under the Multiemployer Pension Plan Amendments Act of 1980, and other matters arising out of the conduct of the Company's business.

The Company has received various claims and demands relating to the need for remedial actions to address environmental conditions alleged to exist at certain of the Company's facilities, and to the past use of various hazardous waste storage and disposal sites. Claims have been made by the United States Environmental Protection Agency under the Comprehensive Environmental Response Compensation and Liability Act of 1980 (the "Superfund" law) for cleanup costs at certain storage and disposal sites, including a wood treatment facility formerly operated by Mass Merchandisers, Inc. ("MMI"), acquired by the Company in October 1985. Under an escrow agreement, up to 176,000 shares of the Company's common stock, otherwise deliverable to MMI's former shareholders, is available to compensate the Company for up to 40% of costs incurred by the Company, in excess of $2 million, in the cleanup of the site.

In November 1983, the Company sold C.F. Mueller Company, a pasta manufacturer, to CPC International Inc. ("CPC"). In April 1985, CPC filed a complaint in the New York state court, seeking general damages of $61,000,000 and additional punitive damages claiming that the Company breached certain representations in the agreement. CPC also claims fraud and violations of certain state and federal securities laws by the Company, its investment banker, and three other defendants who were employees of the Company and Mueller at the time of sale. During the fiscal year, an intermediate New York appellate court dismissed the securities law violation counts against the Company and all counts against the other defendants. The New York Court of Appeals has granted a hearing on the appellate court's decision. Also during the fiscal year, a motion by CPC for summary judgment on certain issues was denied. Discovery is now scheduled to commence in the litigation.

All previously reported litigation arising from the 1983 Hawaiian milk products recall because of alleged excessive levels of heptachlor has now been settled.

In view of the inherent difficulty in predicting the result of litigation and governmental proceedings, the Company cannot determine what the eventual outcome of such litigation and governmental proceedings will be. However, the Company believes, based on current knowledge and after consultation with its General Counsel, that the outcome of such litigation and proceedings will not have a material adverse effect on the Company's consolidated financial position or the results of its consolidated operations.

ITEM 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders, through the solicitation of proxies or otherwise, during the three months ended March 31, 1987.

EXECUTIVE OFFICERS OF THE REGISTRANT

The following table sets forth information concerning the executive officers of the Registrant as of June 3, 1987. The number of years of service with the Company includes service with predecessor and acquired companies.

There are no family relationships between any of the executive officers or directors of the Registrant. The executive officers are chosen annually to serve until the first meeting of the Board of Directors following the next annual meeting of stockholders and until their successors are elected and have qualified, or until death, resignation or removal, whichever is sooner.

Name	Age	Position with Registrant and Business Experience
Neil E. Harlan	66	Chairman of the Board since 1979 and a Director since 1974; Chief Executive Officer from February 1984 to July 1986; President from February to July 1984. Service with the Company—13 years.
Thomas W. Field, Jr.	53	Chief Executive Officer since July 1986 and President and a Director since July 1984; Chief Operating Officer from July 1984 to July 1986; President of American Stores Company from 1981 to July 1984 and a Director from 1976 to July 1984; President and Chief Executive Officer of Alpha Beta Company from 1976 to July 1984. Service with the Company—3 years.
Kenneth C. Hicken	58	Executive Vice President Operations since November 1986; Vice President and President of McKesson Beverage Group from October 1984 to November 1986; Executive Vice President, Beverage Group from 1983 to October 1984; Vice President and General Manager, Water Division from 1976 to 1983. Service with the Company 22 years.
Rex R. Malson	55	Executive Vice President Operations since November 1986; Vice President and President of McKesson Drug & Health Care Group from January 1984 to November 1986; Executive Vice President and General Manager, McKesson Drug Company from 1983 to 1984; Senior Vice President, McKesson Drug & Health Care Group from 1981 to 1983. Service with the Company—13 years.
Alan Seelenfreund	50	Executive Vice President and Chief Financial Officer since November 1986; Vice President and Chief Financial Officer from April 1984 to November 1986; Vice President, Finance from 1974 to 1984. Service with the Company—12 years.
John S. Wheaton	58	Executive Vice President Administration since November 1986; Vice President Planning and Analysis from 1974 to November 1986. Service with the Company—16 years.
Ronald C. Anderson	44	Vice President since April 1987 and President of McKesson Service Merchandising Division since April 1986. Senior marketing executive for Skaggs Alpha Beta from 1984 to 1986 and Director of Marketing of the northern California division of Alpha Beta from 1977 to 1984. Service with the Company—1 year
Stanley A. Greenblatt	44	Vice President Taxes since November 1984; Director of Taxes from September 1980 to November 1984. Service with the Company—7 years.
James I. Johnston	60	Vice President Personnel since 1975. Service with the Company—15 years.
Marvin L. Krasnansky	57	Vice President Corporate Relations since 1979. Service with the Company—8 years.

Name	Age	Position with Registrant and Business Experience
Ivan D. Meyerson	42	Vice President and General Counsel since January 1987; various positions within the Company's Law Department from 1978 through 1986, including Counsel, Senior Counsel, Assistant and Associate General Counsel. Service with the Company—9 years.
Nancy A. Miller	43	Staff Vice President since November 1986 and Corporate Secretary since 1980. Service with the Company—9 years.
Garret A. Scholz	47	Vice President since November 1984 and Treasurer since 1981. Service with the Company—14 years.
Thomas B. Simone	45	Vice President since November 1984 and Controller since 1981. Service with the Company—13 years.

PART II

ITEM 5. Market for the Registrant's Common Stock and Related Stockholder Matters

(a) Market Information

The principal market on which the Company's common stock is traded is the New York Stock Exchange. High and low prices for the common stock by quarter appears in financial note 15, "Quarterly Financial Information" on page A-28 of this Form 10-K Annual Report.

(b) Holders

The approximate number of record holders of the Company's common stock as of March 31, 1987 was 29,500.

(c) Dividends

Quarterly cash dividends of $.30 per share were declared in fiscal 1986 and for the first quarter of fiscal 1987. The quarterly cash dividend was increased to $.32 per share effective the second quarter of fiscal 1987.

ITEM 6. Selected Financial Data

Selected financial data is shown on pages A-1 to A-5 of this Form 10-K Annual Report.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's discussion and analysis of financial condition and results of operations appears in the Financial Review on pages A-6 to A-10 of this Form 10-K Annual Report.

ITEM 8. Financial Statements and Supplementary Data

Financial Statements and Supplementary Data appear on pages A-12 to A-28 of this Form 10-K Annual Report.

ITEM 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

There have been no changes in the Company's independent auditors or disagreements with such auditors on accounting principles or practices or financial statement disclosures.

PART III

ITEM 10. Directors and Executive Officers of the Registrant

Information with respect to Directors of the Company is incorporated by reference from the Registrant's definitive proxy statement for its annual meeting of stockholders to be filed not later than 120 days after March 31, 1987 with the Securities and Exchange Commission pursuant to Regulation 14A (the "Proxy Statement"). Certain information relating to Executive Officers of the Company appears at pages 5 and 6 of this Form 10-K Annual Report.

ITEM 11. Executive Compensation

Information with respect to this item is incorporated by reference from the Proxy Statement.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management

Information with respect to this item is incorporated by reference from the Proxy Statement.

ITEM 13. Certain Relationships and Related Transactions

Information with respect to this item is incorporated by reference from Item 14 (a)—Consolidated Supplementary Financial Schedules—Schedule II—Amounts Receivable from Related Parties and Underwriters, Promoters, and Employees (other than related parties).

Information with respect to certain transactions with management is incorporated by reference from the Proxy Statement.

PART IV

ITEM 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) Exhibits and Financial Statement Schedules:

The following documents appear in Appendix A to this Form 10-K Annual Report and are filed as a part hereof.

Six-Year Highlights

Financial Review

Opinion of Independent Public Accountants

Consolidated Financial Statements

Statements of Consolidated Income for the years ended March 31, 1987, 1986 and 1985

Consolidated Balance Sheets, March 31, 1987, 1986 and 1985

Statements of Consolidated Stockholders' Equity for the years ended March 31, 1987, 1986 and 1985

Statements of Changes in Consolidated Financial Position for the years ended March 31, 1987, 1986 and 1985

Financial Notes

Consolidated Supplementary Financial Schedules

II Amounts Receivable from Related Parties and Underwriters, Promoters, and Employees (other than related parties)

VIII Valuation and Qualifying Accounts

IX Short-term Borrowings

X Supplementary Income Statement Information

Schedules not included herein have been omitted because of the absence of conditions under which they are required or because the required information, where material, is shown in the financial statements, financial notes or supplementary financial information.

The Exhibit Index on pages B-1 through B-3 of this Form 10-K Annual Report lists the exhibits that are filed as part of this report.

(b) Reports on Form 8-K:

There were no reports on Form 8-K filed during the quarter ended March 31, 1987.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

McKESSON CORPORATION

Date: June 3, 1987

By: /s/ THOMAS W. FIELD, JR.
Thomas W. Field, Jr., President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on June 3, 1987 by the following persons on behalf of the Registrant and in the capacities indicated,

(a) Principal Executive Officers:

/s/ NEIL E. HARLAN
Neil E. Harlan, Chairman of the Board

/s/ THOMAS W. FIELD, JR.
Thomas W. Field, Jr., President and Chief Executive Officer

(b) Principal Financial Officer:

/s/ ALAN SEELENFREUND
Alan Seelenfreund, Executive Vice President and Chief Financial Officer

(c) Principal Accounting Officer:

/s/ THOMAS B. SIMONE
Thomas B. Simone, Vice President and Controller

(d) Directors:

____
Robert P. Bauman

/s/ ROBERT R. DOCKSON
Robert R. Dockson

/s/ THOMAS W. FIELD, JR.
Thomas W. Field, Jr.

/s/ NEIL E. HARLAN
Neil E. Harlan

/s/ JAMES R. HARVEY
James R. Harvey

/s/ LESLIE L. LUTTGENS
Leslie L. Luttgens

/s/ ROY B. MINER
Roy B. Miner

/s/ JOSEPH R. RENSCH
Joseph R. Rensch

/s/ EZRA SOLOMON
Ezra Solomon

/s/ J. PAUL STICHT
J. Paul Sticht

/s/ MALCOLM TOON
Malcolm Toon

APPENDIX A

McKESSON CORPORATION
FINANCIAL INFORMATION

CONTENTS

SIX-YEAR HIGHLIGHTS

CONSOLIDATED OPERATIONS

	Years Ended March 31					
	1987	1986	1985	1984	1983	1982
	(dollars and shares in millions except per share amounts)					
Revenues	$6,671.6	$5,665.7	$4,236.7	$3,643.1	$3,224.6	$2,919.7
Percent increase	17.8%	33.7%	16.3%	13.0%	10.4%	11.2%
Operating profit	231.0	209.6	160.6	140.5	122.4	117.7
Percent increase	10.2%	30.5%	14.3%	14.8%	4.0%	22.0%
Percent of revenues	3.5%	3.7%	3.8%	3.9%	3.8%	4.0%
Average capital employed(1)	1,300.0	1,125.7	847.9	858.9	870.3	793.8
Gross profit	979.2	880.9	705.8	606.4	533.4	487.2
Percent of revenues	14.7%	15.5%	16.7%	16.6%	16.5%	16.7%
Interest expense	44.4	41.2	22.5	17.5	25.1	23.2
Income before taxes on income	172.9	144.0	120.7	107.0	91.8	92.2
Percent increase	20.1%	19.3%	12.8%	16.6%	(0.4)%	31.5%
Taxes on income	76.4	69.9	58.3	49.2	40.5	40.7
Effective tax rate	44.2%	48.5%	48.3%	46.0%	44.1%	44.1%
Income after taxes—continuing operations	94.1	74.1	62.4	57.8	51.3	51.5
Percent increase	27.0%	18.8%	8.0%	12.7%	(0.4)%	26.5%
Net income	89.7	77.9	65.0	68.7	56.5	73.5
Average stockholders' equity	726.4	609.4	554.1	532.3	492.3	456.9
Return(2)	13.0%	12.2%	11.3%	10.9%	10.4%	11.3%
Total dividends declared	53.6	46.8	43.4	42.5	40.3	35.8
Dividend payout ratio(3)	59.8%	60.1%	66.8%	61.9%	71.3%	48.7%
Fully diluted earnings per common share(4)						
Continuing operations	2.04	1.76	1.63	1.50	1.42	1.48
Percent increase	15.9%	8.0%	8.7%	5.6%	(4.1)%	29.8%
Discontinued operations	(.09)	.08	.06	.26	.13	.59

(1) Consists of total debt, deferred taxes on income, minority interest in subsidiaries and stockholders' equity.

(2) Based on income from continuing operations.

(3) Based on net income.

(4) Restated to reflect the two-for-one split of the Company's common stock.

SIX-YEAR HIGHLIGHTS

CONSOLIDATED FINANCIAL POSITION

	Years Ended March 31					
	1987	1986	1985	1984	1983	1982
	(dollars and shares in millions except per share amounts)					
Customer receivables	$ 523.5	$ 461.3	$ 323.3	$ 281.2	$ 231.5	$ 220.1
Days of sales(1)	28.3	28.1	27.6	27.9	26.0	27.3
Inventories—LIFO cost	733.8	663.0	484.8	361.5	340.4	323.3
Inventories—FIFO cost	901.5	803.0	601.2	460.3	418.8	379.5
Days of sales(1)	57.2	58.2	61.5	54.8	56.4	56.6
Current assets	1,451.0	1,262.9	921.7	739.8	670.7	620.4
Current liabilities	951.6	808.1	595.5	526.3	438.0	404.2
Working capital	499.4	454.8	326.2	213.5	232.7	216.2
Percent of revenues(1)	7.5%	7.7%	7.7%	5.9%	7.2%	7.4%
Property, plant and equipment—net	347.5	337.5	247.0	200.1	166.9	148.8
Total assets	2,207.6	2,087.5	1,465.0	1,325.6	1,269.4	1,233.6
Total debt(2)	451.7	528.6	242.0	217.5	277.4	320.6
Stockholders' equity	762.2	695.8	558.6	552.7	510.3	481.5
Capital employed(3)	1,311.3	1,317.8	877.6	830.2	845.5	845.3
Ratio of debt to capital employed	34.4%	40.1%	27.6%	26.2%	32.8%	37.9%
Fully diluted shares(4)	48.2	44.5	40.9	41.2	39.2	37.3
Common shares outstanding(4)	42.5	41.0	36.0	35.7	33.4	32.0
Dividends per common share(4)	1.26	1.20	1.20	1.20	1.20	1.12
Book value per common share(4)	17.73	16.74	15.20	15.13	14.85	14.50

(1) Assumes major acquisitions occurred at beginning of year.

(2) Total debt includes all interest-bearing debt and capitalized lease obligations.

(3) Consists of total debt, deferred taxes on income, minority interest in subsidiaries and stockholders' equity.

(4) Restated to reflect the two-for-one split of the Company's common stock.

SIX-YEAR HIGHLIGHTS

DRUG & HEALTH CARE SEGMENT

	Years Ended March 31					
	1987	1986	1985	1984	1983	1982
	(dollars in millions)					
Distribution						
Revenues	$4,774.4	$4,039.5	$2,818.0	$2,443.7	$2,135.1	$1,870.2
Percent increase	18.2%	43.3%	15.3%	14.5%	14.2%	13.3%
Operating profit	103.3	101.0	67.1	59.4	61.2	54.8
Percent increase	2.3%	50.5%	13.0%	(2.9)%	11.7%	29.6%
Percent of revenues	2.2%	2.5%	2.4%	2.4%	2.9%	2.9%
Average capital employed(1)	639.9	562.5	309.1	216.8	210.9	206.5
Turnover(2)	7.5	7.2	9.1	11.3	10.1	9.1
Return(3)	16.1%	18.0%	21.7%	27.4%	29.0%	26.5%
PCS						
Revenues	54.5	39.4	31.8	26.8	21.9	16.9
Percent increase	38.3%	23.9%	18.7%	22.4%	29.6%	27.1%
Operating profit	15.6	10.1	6.6	5.0	3.7	2.3
Percent increase	54.5%	53.0%	32.0%	35.1%	60.9%	35.3%
Percent of revenues	28.6%	25.6%	20.8%	18.7%	16.9%	13.6%
Average capital employed(1)	9.6	3.3	4.0	2.8	2.3	0.7
Turnover(2)	5.7	11.9	8.0	9.6	9.5	24.1
Return(3)	162.5%	306.1%	165.0%	178.6%	160.9%	328.6%
Total Drug & Health Care						
Revenues	4,828.9	4,078.9	2,849.8	2,470.5	2,157.0	1,887.1
Percent increase	18.4%	43.1%	15.4%	14.5%	14.3%	13.4%
Operating profit	118.9	111.1	73.7	64.4	64.9	57.1
Percent increase	7.0%	50.7%	14.4%	(0.1)%	13.7%	27.6%
Percent of revenues	2.5%	2.7%	2.6%	2.6%	3.0%	3.0%
Average capital employed(1)	649.5	565.8	313.1	219.6	213.2	207.2
Turnover(2)	7.4	7.2	9.1	11.3	10.1	9.1
Return(3)	18.3%	19.6%	23.5%	29.3%	30.4%	27.6%
LIFO reserve provision	28.0	21.7	16.9	16.6	20.7	19.9
Capital expenditures	33.0	25.2	16.3	22.3	21.4	17.6
Depreciation	11.9	13.8	11.2	8.0	6.2	4.8
Amortization of goodwill	8.8	7.3	3.2	1.4	0.9	1.0

(1) Net assets of the segment.

(2) Revenues divided by average capital employed.

(3) Operating profit divided by average capital employed.

SIX-YEAR HIGHLIGHTS

GENERAL MERCHANDISE SEGMENT

	1987	1986	1985	1984	1983	1982
	Years Ended March 31 (dollars in millions)					
Distribution						
Revenues	773.1	485.3	260.8	32.4		
Percent increase	59.3%	86.1%	704.9%			
Operating profit	12.3	7.3	7.0	1.2		
Percent increase	68.5%	4.3%	483.3%			
Percent of revenues	1.6%	1.5%	2.7%	3.7%		
Average capital employed(1)	236.0	129.3	60.1	6.3		
Turnover(2)	3.3	3.8	4.3	5.1		
Return(3)	5.2%	5.6%	11.6%	19.0%		
Armor All						
Revenues	107.0	91.0	77.4	70.3	48.6	45.9
Percent increase	17.6%	17.6%	10.1%	44.7%	5.9%	11.1%
Operating profit	35.8	29.9	24.2	25.3	11.5	10.3
Percent increase	19.7%	23.6%	(4.3)%	120.0%	11.7%	9.6%
Percent of revenues	33.5%	32.9%	31.3%	36.0%	23.7%	22.4%
Average capital employed(1)	51.0	55.7	52.3	33.0	23.6	22.0
Turnover(2)	2.1	1.6	1.5	2.1	2.1	2.1
Return(3)	70.2%	53.7%	46.3%	76.7%	48.7%	46.8%
Total General Merchandise						
Revenues	880.1	576.3	338.2	102.7	48.6	45.9
Percent increase	52.7%	70.4%	229.3%	111.3%	5.9%	11.1%
Operating profit	48.1	37.2	31.2	26.5	11.5	10.3
Percent increase	29.3%	19.2%	17.7%	130.4%	11.7%	9.6%
Percent of revenues	5.5%	6.5%	9.2%	25.8%	23.7%	22.4%
Average capital employed(1)	287.0	185.0	112.4	39.3	23.6	22.0
Turnover(2)	3.1	3.1	3.0	2.6	2.1	2.1
Return(3)	16.8%	20.1%	27.8%	67.4%	48.7%	46.8%
LIFO reserve provision	1.7	0.8	0.4			
Capital expenditures	8.5	19.8	2.8	0.2	0.1	0.1
Depreciation	9.6	4.6	1.3	0.2	0.1	0.2
Amortization of goodwill	2.9	2.1	2.3	1.4	0.9	0.8

(1) Net assets of the segment.

(2) Revenues divided by average capital employed.

(3) Operating profit divided by average capital employed.

SIX-YEAR HIGHLIGHTS

BEVERAGE SEGMENT

	Years Ended March 31					
	1987	1986	1985	1984	1983	1982
			(dollars in millions)			
Wine & Spirits						
Revenues	$ 775.7	$ 832.8	$ 886.3	$ 919.5	$ 873.3	$ 859.9
Percent increase	(6.9)%	(6.0)%	(3.6)%	5.3%	1.6%	1.1%
Operating profit	29.8	32.0	31.3	28.3	31.3	32.1
Percent increase	(6.9)%	2.2%	10.6%	(9.6)%	(2.5)%	1.2%
Percent of revenues	3.8%	3.8%	3.5%	3.1%	3.6%	3.7%
Average capital employed(1)	80.7	90.1	96.6	97.6	95.3	96.7
Turnover(2)	9.6	9.2	9.2	9.4	9.2	8.9
Return(3)	36.9%	35.5%	32.4%	29.0%	32.8%	33.2%
Water						
Revenues	181.1	167.3	150.8	138.4	129.3	115.5
Percent increase	8.2%	11.0%	9.0%	7.0%	11.9%	21.3%
Operating profit	34.2	29.3	24.4	21.3	14.7	18.2
Percent increase	16.7%	20.1%	14.6%	44.9%	(19.2)%	9.0%
Percent of revenues	18.9%	17.5%	16.2%	15.4%	11.4%	15.8%
Average capital employed(1)	63.3	60.6	59.0	58.2	56.6	44.2
Turnover(2)	2.9	2.8	2.6	2.4	2.3	2.6
Return(3)	54.0%	48.3%	41.4%	36.6%	26.0%	41.2%
Total Beverage						
Revenues	956.8	1,000.1	1,037.1	1,057.9	1,002.6	975.4
Percent increase	(4.3)%	(3.6)%	(2.0)%	5.5%	2.8%	6.9%
Operating profit	64.0	61.3	55.7	49.6	46.0	50.3
Percent increase	4.4%	10.1%	12.3%	7.8%	(8.5)%	17.0%
Percent of revenues	6.7%	6.1%	5.4%	4.7%	4.6%	5.2%
Average capital employed(1)	144.0	150.7	155.6	155.8	151.9	140.9
Turnover(2)	6.6	6.6	6.7	6.8	6.6	6.9
Return(3)	44.4%	40.7%	35.8%	31.8%	30.3%	35.7%
LIFO reserve provision	2.0	1.1	(0.6)	0.3	1.5	4.5
Capital expenditures	20.3	17.7	15.9	17.9	20.8	22.3
Depreciation	14.7	14.1	13.9	12.9	11.9	9.7
Amortization of goodwill	0.7	0.9	0.9	0.7	0.3	0.2

(1) Net assets of the segment.

(2) Revenues divided by average capital employed.

(3) Operating profit divided by average capital employed.

FINANCIAL REVIEW

Over the five-year period from fiscal 1982 through 1987, McKesson restructured itself from a conglomerate to a business focused on the distribution of a wide variety of nondurable consumer products. During this period, the Company divested its foods and chemical businesses that represented 37% of reported fiscal 1982 revenues, 40% of operating profit, and 47% of the capital employed. These divestitures generated proceeds of more than $425 million.

During this same period, the Company invested almost $600 million to acquire and expand new distribution companies. These included wholesale drug distributors, principally Spectro and S-P Drug, and the new Service Merchandising and Office Products businesses. By 1987, 72% of revenues, 45% of operating profits, and 59% of operating units' average capital related to the drug distribution businesses. Substantially all of McKesson's capital is now invested in distribution oriented activities.

Fiscal 1987 was a successful year on a number of counts. Earnings from continuing operations for the year of $2.04 per fully diluted share were 16% higher than in fiscal 1986. Per share earnings included 22 cents of special items, reflecting the gain from the initial public offering of PCS stock which was partially offset by a $10 million contribution to the McKesson Foundation. Net income from continuing operations was up 27% to $94.1 million from $74.1 million in fiscal 1986. Return on average stockholders' equity was 13.0%, up from 12.2% in fiscal 1986, while the debt to capital ratio at year-end was reduced to 34.4% from 40.1% at the end of the previous year. However, the fourth quarter results were below expectations.

Earnings per share of 35 cents in the fourth quarter were 3 cents less than in the prior year period and about 9 cents below expected levels. The shortfall was primarily due to an increase in cost of sales because of significant rises in pharmaceutical prices in the final months of the fiscal year and certain general merchandise inventory writedowns. The Company uses the last-in, first-out (LIFO) method of inventory accounting, which charges the most recent cost of merchandise purchased to cost of sales. Consequently, when price increases occur late in the year, the recorded increase in cost of sales cannot be recovered during the period by raising prices to customers. Although the LIFO accounting method reduces reported profit, it benefits the Company by decreasing income taxes and thus preserving cash. The effect of LIFO in the years since adoption has been to reduce income taxes by more than $80 million, thereby providing non-interest bearing funds to finance the business.

Revenue Growth

Fiscal 1987 revenues increased $1 billion, or 17.8% to $6.7 billion. The following table identifies the components of revenue growth:

	Years Ended March 31				
	1987	1986	1985	1984	1983
Existing businesses					
Real volume growth	4.9%	6.8%	3.5%	5.0%	3.5%
Price increases	4.8	4.4	4.8	5.4	6.9
Growth from acquired businesses	8.1	22.5	8.0	2.6	—
Total revenue growth	17.8%	33.7%	16.3%	13.0%	10.4%

The practice in the distribution businesses is to pass on to customers price increases from suppliers. This, coupled with the use of the LIFO accounting method, results in inflation having little impact on the Company's net income.

Revenue of the Drug & Health Care segment increased 18% to $4.8 billion in fiscal 1987. Fiscal 1987 revenues include approximately $1 billion in bulk sales of pharmaceutical products to retail drug chain warehouses, up 30% from the prior year. These bulk sales have significantly lower gross margins than the Company's other sales. The revenue increase was primarily attributable to a 19% increase in wholesale drug sales resulting from 9% real volume growth (of which 4% was due to growth in bulk sales and 5% from other sales), 6% from price increases and 4% due to acquisitions.

The 53% increase in General Merchandise revenue in fiscal 1987 to $880 million was due to a 97% rise in service merchandising sales. The gain in service merchandising was attributable to 12% in real volume growth and 2% in price increases, with the balance due largely to the inclusion of a full year's performance of Mass Merchandisers, Inc., acquired in October 1985.

Revenue of the Beverage segment declined 4% to $957 million in fiscal 1987. Revenue of the bottled water operations increased 8% to $181 million as a result of 4% real volume growth and a 4% price increase. Offsetting the increase in bottled water was a revenue decline in the wine and spirits businesses of 7% to $776 million in fiscal 1987 as a result of a 14% decline in real volume growth partially offset by a 7% increase in prices which included the effect of a liquor excise tax increase in October 1985 and higher costs of imports. The decline in real volume was due in large measure to the sale of several wine and spirit houses in the second half of fiscal 1986 and the impact of the decline in the U.S. dollar on the prices of the Company's imported products.

Operating Profit and Margins

Operating profit increased in each of the Company's three business segments in fiscal 1987. The 7% rise in operating profit of the Drug & Health Care segment to $118.9 million was primarily attributable to a gain of $5.5 million to $15.6 million in the operating profit of PCS. The $10.9 million increase in the operating profit of the General Merchandise segment to $48.1 million was the result of gains in the service merchandising business due largely to acquisitions and a $5.9 million increase to $35.8 million from Armor All Products. These gains were partially offset by increased losses in the office products distribution business related to computerization, reconfiguration of facilities and essentially flat sales. It is anticipated that several more years will be required to reach an acceptable level of profitability in office products. Operating profit of the Beverage segment increased $2.7 million to $64.0 million. The rise was due to a gain of $4.9 million to $34.2 million in bottled water operations, offset by a decline of $2.2 million to $29.8 million in wine and spirits results.

The following table identifies the components of operating margins:

	As a Percent of Sales				
	1987	1986	1985	1984	1983
Gross margin	14.7%	15.6%	16.7%	16.7%	16.6%
Operating expense	11.9	12.6	13.6	13.7	13.4
Operating margin	2.8%	3.0%	3.1%	3.0%	3.2%

This decline relates to a shift in overall Company sales mix to the wholesale drug operations which have a lower gross margin than the Company's other businesses and which have experienced gross margin declines. The gross margin of the wholesale drug operations declined from 8.2% in fiscal 1986 to 7.4% in fiscal 1987. This resulted from competition for market share and an increase in bulk pharmaceutical sales to chain warehouses and hospital accounts both of which are at lower than normal gross margins. The bottom line effect of the gross margin decline has been partially offset by improved productivity which has reduced operating expense (selling, distribution and administrative expenses) as a percent of sales. In the wholesale drug operations, operating expense as a percent of sales declined from 5.8% in fiscal 1986 to 5.3% in fiscal 1987.

Initial Public Offerings and Special Items

In October 1986, the Company's Armor All Products subsidiary issued 3,500,000 common shares to the public resulting in net proceeds of $40.2 million and reducing McKesson's ownership interest to 83.3% This capital transaction increased consolidated equity by $30.4 million. In November 1986, the Company sold 2,000,000 common shares of its PCS subsidiary to the public, reducing McKesson's ownership interest to 86.2%. The Company received net aftertax proceeds from the sale of $17 million, resulting in a $15.6 million aftertax gain.

At the time of the PCS stock sale, the Company made a $10 million special contribution to the McKesson Foundation, which partially offset the $23.1 million pretax gain recorded on the stock sale. This grant will enable the McKesson Foundation to fund its activities without additional contributions from the Company for several years. The gain on the PCS stock sale and the special contribution have been classified as special items in the Company's financial statements. The net effect of these special items increased pretax income by $13.1 million and net income by $10.6 million, or 22 cents per share.

Discontinued Operations

During fiscal 1987, McKesson sold its chemical businesses. Prior years' financial information has been restated to include the chemical businesses in discontinued operations. The fiscal 1987 $4.4 million aftertax loss in discontinued operations included aftertax income of $2.3 million from operations and an aftertax loss of $6.7 million on dispositions. Approximately half the loss on dispositions resulted from the sale of chemical operations after providing for cleanup costs at certain storage and disposal sites and other retained liabilities. Also an additional provision was made for potential multiemployer pension liabilities relating to the Company's former dairy operations divested in fiscal 1983.

Capital Expenditures

Capital expenditures by major businesses were as follows:

	Fiscal 1987	Fiscal 1985-87 Average
	(in millions)	
Wholesale Drug	$27	$21
General Merchandise Distribution	8	10
Water	18	16
Other	13	19
Total	$66	$66

Operating Working Capital

At March 31, 1987, McKesson's investment in operating working capital (trade receivables plus LIFO inventory less trade payables) was $616 million. The table below identifies year-end operating working capital as a percent of sales.

	Fiscal 1987	Fiscal 1985-87 Average
Wholesale Drug	8.2%	7.9%
General Merchandise Distribution	17.0%	17.9%
Wine & Spirits	8.6%	8.7%
Total Company	9.3%	9.2%

Cashflow and Liquidity

Cashflow before financing activities, acquisitions and divestitures was as follows:

	Fiscal 1987	Fiscal 1985-87 Average
	(in millions)	
Cash from operations before working capital changes	$128	$127
Working capital changes	(51)	(57)
Operating cashflow	77	70
Capital expenditures—net	(60)	(60)
Operating cashflow after capital expenditures	17	10
Dividend distributions	(54)	(48)
Net	$ (37)	$ (38)

Cashflow from operations is expected to continue to be sufficient to meet the operating needs of the Company and the anticipated level of capital expenditures. The Company's liquidity and capital resources are not expected to be materially affected by capital expenditure commitments. The Company does not currently anticipate a continuing source of funds from sales of equity securities of majority owned subsidiaries.

Capitalization

The Company's capitalization at March 31 included the following:

	1987	1986 (in millions)	1985
Short-term borrowings	$ 15.1	$ 57.3	$ 72.1
Term debt	361.5	378.9	87.0
Convertible debt	75.1	92.4	82.9
Total debt	451.7	528.6	242.0
Deferred taxes and minority interest	97.4	93.4	77.0
Stockholders' equity—net	762.2	695.8	558.6
Total capitalization	$1,311.3	$1,317.8	$877.6
Debt to capital ratio at March 31	34.4%	40.1%	27.6%
Average interest rate during year			
Short-term borrowings	7.2%	9.0%	10.2%
Other debt	9.4	9.4	9.1

In fiscal 1986, the Company financed its wholesale drug acquisitions by issuance of term debt totalling approximately $250 million which had the effect of raising the debt to capital ratio to 40% at March 31, 1986. The ratio decreased at March 31, 1987 as a result of cashflow generated from operations and divestitures. The Company's $180 million revolving credit facility and access to capital markets provides sufficient financial capacity and guaranteed borrowing availability to fund the Company's business expansion. At March 31, 1987 the unused borrowing capacity under the revolving credit facility was $164.9 million. Certain debt agreements require that the Company maintain minimum levels of net worth. At March 31, 1987, net worth was approximately $189 million in excess of such minimum levels.

Stockholders' Equity

At March 31, 1987 there were 120,000,000 shares of $2 par value common stock authorized of which 42,515,487 were outstanding net of treasury shares. In October 1986, the Company's common stock was split two-for-one, effected in the form of a dividend.

Fully diluted shares used in computing earnings per share were 48.2 million in fiscal 1987 compared with 44.5 million in fiscal 1986. The increase was due primarily to shares issued for the acquisition of MMI in October 1985.

The Company repurchased 1.2 million common shares at an average price of $31.90 per share in fiscal 1987 and anticipates repurchases of 2.4 million shares in fiscal 1988. The repurchases are designed to offset the effect of the issuance of shares through employee incentive plans including the Company's sale to the McKesson Employee Stock Ownership Plan in fiscal 1987 of 1 million common shares for $30.2 million, and conversion of other securities.

Acquisitions

Acquisitions in fiscal 1987 included two service merchandising businesses, Millbrook Distributors, Inc. and Carlstrom Foods, Inc., and two other businesses for a total of $23.3 million in cash. In fiscal 1986, the Company acquired Spectro Industries, Inc. and S-P Drug Co., Inc., primarily wholesale distributors of drugs, health and beauty aids and sundries, for a total of $254 million in cash, and Mass Merchandisers, Inc., a service merchandiser, for approximately 4.2 million shares of the Company's common stock then valued at $96 million. The Spectro, S-P Drug and MMI acquisitions resulted in goodwill of $229 million which is being amortized over 40 years.

Pension Plans

Substantially all full-time employees of the Company not covered by union-sponsored multiemployer plans are covered under Company-sponsored defined benefit retirement plans, profit-sharing incentive plans and an ESOP. At March 31, 1987, the $181 million market value of the assets of the defined benefit plans exceeded the projected benefit obligation for services rendered to date by $9.2 million. A total of 3.7 million McKesson shares, or 8.7% of the shares outstanding, were held for employees in the profit-sharing and ESOP trusts at March 31, 1987.

Income Taxes

The reconcilation between the Company's effective tax rate on income from continuing operations and the statutory-federal income tax rate is as follows:

	1987	1986	1985
Statutory federal income tax rate	46.0%	46.0%	46.0%
State and local income taxes	4.6	4.7	4.8
Nondeductible amortization	2.5	2.7	1.7
Capital gains	(2.9)	(0.6)	0.1
ITC and tax benefit leases	(3.6)	(3.1)	(2.0)
Other—net	(2.4)	(1.2)	(2.3)
Effective tax rate	44.2%	48.5%	48.3%

The Company's effective tax rate in fiscal 1987 benefitted from the capital gain on the sale of stock of the PCS subsidiary. Implementation of changes required by the Tax Reform Act of 1986 had no significant impact on the results for fiscal 1987 as the loss of the Investment Tax Credit was slightly more than offset by the favorable effect of the new law on tax benefit lease investments. Based on preliminary analysis, it is anticipated that changes in the tax law will have a positive impact on both earnings and cashflows in fiscal 1988 and future years.

Management's Responsibility

McKesson Corporation is responsible for the preparation and accuracy of the financial statements and other information included in this report. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles using, where appropriate, management's best estimates and judgments.

In meeting its responsibility for the reliability of the financial statements, the Company depends on its system of internal accounting control. The system is designed to provide reasonable assurance that assets are safeguarded and that transactions are executed as authorized and are properly recorded. The system is augmented by written policies and procedures and monitored by an internal audit department.

The Board of Directors reviews the financial statements and reporting practices of the Company through its Audit Committee, which is composed entirely of directors who are not officers or employees of the Company. The committee meets regularly with the independent auditors, internal auditors and management to discuss audit scope and results and to consider internal control and financial reporting matters. Both the independent and internal auditors have unrestricted access to the Audit Committee. The entire Board of Directors reviews the Company's financial performance and financial plan.

Thomas W. Field, Jr.
President and Chief Executive Officer

Alan Seelenfreund
Executive Vice President and Chief Financial Officer

OPINION OF INDEPENDENT PUBLIC ACCOUNTANTS

McKesson Corporation:

We have examined the consolidated financial statements and supplementary financial schedules of McKesson Corporation and subsidiaries listed in Item 14(a) on page 9. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such consolidated financial statements present fairly the financial position of McKesson Corporation and subsidiaries at March 31, 1987, 1986 and 1985 and the results of their operations and the changes in their financial position for each of the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis. Also, in our opinion, such supplementary financial schedules, when considered in relation to the basic consolidated financial statements, present fairly in all material respects the information shown therein.

DELOITTE HASKINS & SELLS

San Francisco, California
May 22, 1987

McKESSON CORPORATION

STATEMENTS OF CONSOLIDATED INCOME

	Years ended March 31		
	1987	1986	1985
	(in millions except per share amounts)		
Revenues	$6,671.6	$5,665.7	$4,236.7
Costs and Expenses			
Cost of sales	5,673.4	4,766.2	3,518.3
Selling	241.0	212.4	173.4
Distribution	292.2	266.1	200.3
Administrative	260.8	235.8	201.5
Interest	44.4	41.2	22.5
Total	6,511.8	5,621.7	4,116.0
Special Items (Note 2)			
Gain on sale of subsidiary stock	23.1	—	—
Contribution to McKesson Foundation	(10.0)	—	—
Income Before Taxes on Income	172.9	144.0	120.7
Taxes on income (Note 10)	76.4	69.9	58.3
Income Before Minority Interest	96.5	74.1	62.4
Minority interest in net income of subsidiaries	(2.4)	—	—
Income After Taxes			
Continuing operations	94.1	74.1	62.4
Discontinued operations (Note 6)	(4.4)	3.8	2.6
Net Income	$ 89.7	$ 77.9	$ 65.0
Earnings Per Common Share			
Fully diluted earnings			
Continuing operations	$ 2.04	$ 1.76	$ 1.63
Discontinued operations	(.09)	.08	.06
Total	$ 1.95	$ 1.84	$ 1.69
Primary earnings			
Continuing operations	$ 2.17	$ 1.88	$ 1.73
Discontinued operations	(.10)	.10	.07
Total	$ 2.07	$ 1.98	$ 1.80
Shares on Which Earnings Per Common Share Were Based			
Fully diluted	48.2	44.5	40.9
Primary	43.1	39.1	35.7

See Financial Notes.

McKESSON CORPORATION

CONSOLIDATED BALANCE SHEETS

ASSETS

	March 31 1987	1986 (In millions)	1985
Cash and short-term investments	$ 47.7	$ 44.6	$ 44.4
Receivables (Note 4)	613.1	517.1	368.0
Inventories (Note 5)	733.8	663.0	484.8
Prepaid expenses (Note 10)	56.4	38.2	24.5
Total current assets	1,451.0	1,262.9	921.7
Land	33.3	34.0	23.2
Buildings	189.2	179.0	114.0
Machinery and equipment	348.6	324.1	255.2
Total property, plant and equipment	571.1	537.1	392.4
Accumulated depreciation	223.6	199.6	145.4
Net property, plant and equipment	347.5	337.5	247.0
Goodwill and other intangibles	311.6	317.9	96.1
Other assets (Note 6)	97.5	169.2	200.2
Total	$2,207.6	$2,087.5	$1,465.0

LIABILITIES AND STOCKHOLDERS' EQUITY

	1987	1986	1985
Accounts payable—trade	$ 543.7	$ 450.8	$ 355.8
Drafts payable	157.5	133.4	113.2
Current portion of long-term debt (Notes 7 and 8)	55.3	38.4	8.1
Salaries and wages	51.8	45.6	33.5
Taxes	35.5	41.1	39.6
Interest and dividends	19.3	21.0	14.3
Other	88.5	77.8	31.0
Total current liabilities	951.6	808.1	595.5
Long-term debt (Notes 7 and 8)	396.4	490.2	233.9
Deferred taxes on income (Note 10)	84.5	93.4	77.0
Minority interest in subsidiaries	12.9	—	—
Stockholders' equity:			
Preferred stocks	8.6	10.0	11.3
Common stock (shares issued: 1987, 44.4; 1986, 43.0 and 1985, 38.8)	88.8	43.0	38.8
Other capital	254.4	194.2	102.2
Retained earnings	502.4	509.6	478.5
Accumulated translation adjustment	(9.5)	(10.6)	(8.4)
ESOP note and guarantee (Note 11)	(45.8)	(16.8)	(17.9)
Treasury shares, at cost (shares: 1987, 1.9; 1986, 2.1 and 1985, 2.8)	(36.7)	(33.6)	(45.9)
Net stockholders' equity (Notes 9 and 11)	762.2	695.8	558.6
Total	$2,207.6	$2,087.5	$1,465.0

See Financial Notes.

McKESSON CORPORATION

STATEMENTS OF CONSOLIDATED STOCKHOLDERS' EQUITY

Years Ended March 31, 1987, 1986 and 1985
(shares in thousands, dollars in millions)

	Preferred Stocks		Common Stock	
	Shares	Amount	Shares	Amount
Balances, March 31, 1984	358	$12.5	19,394	$38.8
Purchase of shares				
Issuance of shares under employee plans (Note 9)			3	
Conversion of debentures and preferred stocks	(35)	(1.2)	15	
Other				
Translation adjustment				
Net income				
Cash dividends				
Preferred stocks (Series A, $1.80 per share; Series B, $2.05 per share)				
Common, $1.20 per share (Note 9)				
Balances, March 31, 1985	323	11.3	19,412	38.8
Purchase of shares				
Issuance of shares under employee plans (Note 9)				
Conversion of debentures and preferred stocks	(37)	(1.3)		
Acquisition of Mass Merchandisers, Inc. (net of 88,000 pre-split shares held in escrow)			2,124	4.2
ESOP note payment				
Fair value of options exchanged in acquisitions				
Other				
Translation adjustment				
Net income				
Cash dividends				
Preferred stocks (Series A, $1.80 per share; Series B, $2.05 per share)				
Common, $1.20 per share (Note 9)				
Balances, March 31, 1986	286	10.0	21,536	43.0
Two-for-one stock split (Note 9)			21,536	43.0
Purchase of shares				
Issuance of shares under employee plans (Note 9)			1,354	2.7
Conversion of debentures and preferred stocks	(40)	(1.4)		
ESOP note payment				
Issuance of subsidiary stock (Note 2)				
Other			(1)	0.1
Translation adjustment				
Net income				
Cash dividends				
Preferred stocks (Series A, $1.80 per share; Series B, $2.05 per share)				
Common, $1.26 per share				
Balances, March 31, 1987	246	$ 8.6	44,425	$88.8

See Financial Notes.

Other Capital	Retained Earnings	Accumulated Translation Adjustment	ESOP Note and Guarantee	Treasury Common Shares	Treasury Amount	Net Stockholders' Equity
$103.3	$456.9	$ (7.6)		(1,543)	$(51.2)	$552.7
				(651)	(23.7)	(23.7)
(1.4)			$(17.9)	719	26.4	7.1
(0.6)				67	2.6	0.8
0.9				1		0.9
		(0.8)				(0.8)
	65.0					65.0
	(0.6)					(0.6)
	(42.8)					(42.8)
102.2	478.5	(8.4)	(17.9)	(1,407)	(45.9)	558.6
				(225)	(10.6)	(10.6)
(5.5)				504	19.8	14.3
(1.2)				78	3.1	0.6
86.5						90.7
			1.1			1.1
11.4						11.4
0.8						0.8
		(2.2)				(2.2)
	77.9					77.9
	(0.5)					(0.5)
	(46.3)					(46.3)
194.2	509.6	(10.6)	(16.8)	(1,050)	(33.6)	695.8
	(43.0)			(1,050)		
				(1,164)	(37.1)	(37.1)
35.0	(1.1)		(30.2)	480	10.0	16.4
(5.9)				918	24.6	17.3
			1.2			1.2
30.4						30.4
0.7	0.8			(44)	(0.6)	1.0
		1.1				1.1
	89.7					89.7
	(0.5)					(0.5)
	(53.1)					(53.1)
$254.4	$502.4	$ (9.5)	$(45.8)	(1,910)	$(36.7)	$762.2

McKESSON CORPORATION
STATEMENTS OF CHANGES IN CONSOLIDATED FINANCIAL POSITION

	Years ended March 31		
	1987	1986	1985
		(in millions)	
Operations			
Income after taxes from continuing operations	$ 94.1	$ 74.1	$ 62.4
Items not affecting working capital			
Depreciation	43.1	38.9	31.9
Amortization	12.3	10.8	6.5
Deferred taxes on income	(6.5)	11.7	17.0
After-tax gain on sale of subsidiary stock	(15.6)		
Other	0.9	(1.4)	(0.5)
Total from continuing operations before changes in working capital	128.3	134.1	117.3
Decrease (Increase) in operating working capital*			
Receivables	(85.6)	(43.5)	(29.8)
Inventories	(58.5)	(37.3)	(86.6)
Accounts and drafts payable	102.2	21.2	65.7
Other	(9.6)	(8.6)	(0.2)
Total working capital increase	(51.5)	(68.2)	(50.9)
Cash provided from continuing operations	76.8	65.9	66.4
Discontinued Operations	(15.7)	19.4	17.0
Dividends Declared	(53.6)	(46.8)	(43.3)
Investments			
Capital expenditures	(65.9)	(76.7)	(56.6)
Properties sold	5.9	9.4	4.0
Acquisition of businesses, less cash and short-term investments acquired	(23.3)	(335.8)	(67.4)
Proceeds from sales of discontinued operations	95.0	10.1	69.0
Other	5.0	15.6	0.4
Total investments	16.7	(377.4)	(50.6)
Financing Activities			
Proceeds from issuance of debt	39.2	269.3	96.0
Repayment of debt	(117.0)	(38.5)	(72.4)
Proceeds after-tax from sale/issuance of subsidiary stock	57.1		
Capital stock transactions			
Issuances	48.4	117.2	26.0
Conversion of debentures	17.3	0.6	0.8
Treasury stock acquired	(37.1)	(10.6)	(23.7)
ESOP note and guarantee	(29.0)	1.1	(17.9)
Total financing activities	(21.1)	339.1	8.8
Increase (Decrease) in Cash and Short-Term Investments	$ 3.1	$ 0.2	$ (1.7)

*Excludes cash, short-term investments and borrowings.

See Financial Notes.

McKESSON CORPORATION

FINANCIAL NOTES

1. Significant Accounting Policies

Consolidated Financial Statements include the financial statements of all significant majority-owned companies, except those classified as discontinued operations. All significant intercorporate amounts have been eliminated. Minority interest represents minority shareholders' proportionate share in the equity of majority-owned subsidiaries.

Restatement. Prior years' financial information has been restated to reflect the discontinuance of chemical operations as discussed in Note 6 and for the two-for-one stock split discussed in Note 9.

Inventories consist of merchandise held for resale and are stated at the lower of cost or market. The cost of substantially all inventories is determined on the last-in, first-out (LIFO) method.

Property, Plant and Equipment is stated at cost and depreciated on the straight-line method at rates designed to distribute the cost of properties over estimated service lives.

Goodwill and Other Intangibles are amortized over periods estimated to be benefitted, ranging from 5 to 40 years and are stated net of accumulated amortization of $65.2 million, $52.9 million and $42.0 million at March 31, 1987, 1986 and 1985.

Tax Benefit Lease Investments of $22.4 million at March 31, 1987 are included in Other Assets and represent the unamortized cost of tax credits and tax depreciation deductions purchased from others through fiscal 1984 as allowed by the Economic Recovery Tax Act of 1981. Income resulting from the purchase of tax credits is recognized at a constant rate of return on the unrecovered allocated cost. The cost allocated to tax depreciation deductions is amortized to expense in the periods when tax deferrals exceed the allocated cost.

Pension Costs for the Company sponsored defined benefit plans are accounted for in accordance with Statement of Financial Accounting Standards No. 87, Employers Accounting for Pensions, adopted in fiscal 1986. The projected unit credit method is used for measuring net periodic pension cost over the employees' service life. Costs are funded based on the recommendations of independent actuaries.

2. Subsidiary Initial Public Offerings and Special Items

In October 1986, the Company's Armor All Products Corporation ("Armor All") subsidiary issued 3,500,000 common shares to the public reducing the Company's ownership interest to 83.3%. The $40.2 million net proceeds from the offering resulted in additions to Other Capital of $30.4 million and Minority Interest in Subsidiaries of $9.8 million.

In November 1986, the Company sold 2,000,000 common shares of its PCS, Inc. ("PCS") subsidiary to the public reducing the Company's ownership interest to 86.2%. The net proceeds from the sale of $24.5 million, resulted in a $23.1 million pretax gain and a $1.4 million addition to Minority Interest in Subsidiaries.

At the time of the sale of the PCS stock, the Company made a $10 million special contribution to the McKesson Foundation. The gain on the sale of the PCS stock and the special contribution have been classified as Special Items in the accompanying financial statements. The net effect of these special items increased pretax income by $13.1 million and net income by $10.6 million or 22 cents per share.

3. Acquisitions

The Company acquired two service merchandising businesses, Millbrook Distributors, Inc. and Carlstrom Foods, Inc., and two other businesses in fiscal 1987 for $23.3 million in cash. The acquisitions were accounted for as purchases and resulted in goodwill of $7 million which is being amortized over 25 to 40 years.

In fiscal 1986, the Company acquired Spectro Industries, Inc., S-P Drug Co., Inc., and Mass Merchandisers, Inc. Additionally, three veterinary products distribution companies were acquired during the year. All of these acquisitions were accounted for as purchases and resulted in goodwill of $229 million which is being amortized over 40 years.

The costs of the Spectro and S-P Drug acquisitions were $172 million and $82 million, respectively, including cash and the fair value of McKesson common stock options issued in exchange for outstanding stock options of the acquired companies. Spectro and S-P Drug primarily distribute drugs and health and beauty aids.

MMI was acquired for approximately 4.2 million shares of the Company's common stock excluding approximately 176,000 shares being retained in escrow for up to five years to provide for certain contingent liabilities of MMI. The total cost of the acquisition was $96 million including the fair value of McKesson common stock options issued in exchange for outstanding MMI stock options. MMI is a service merchandiser, distributing nonfood items (including health and beauty aids, housewares, hardware and other general merchandise) to retail outlets.

If the Spectro, S-P Drug and MMI acquisitions had occurred at the beginning of fiscal 1986, pro forma fiscal 1986 operating results from continuing operations would have been as follows: revenues $5,933.3 million; income after taxes $75.3 million; and fully diluted earnings per common share $1.70 based on 46.8 million fully diluted shares.

The three veterinary acquisitions were made for cash at a total cost of $12 million.

In fiscal 1985, the Company acquired five businesses, for a total cost of $67 million. These acquisitions were accounted for as purchases and resulted in goodwill of $23 million.

4. Receivables

	March 31 1987	1986	1985
		(in millions)	
Customer accounts	$523.5	$461.3	$323.3
Notes and other	110.1	76.4	56.4
Total	633.6	537.7	379.7
Allowances	20.5	20.6	11.7
Net	$613.1	$517.1	$368.0

The allowances are for uncollectible amounts, discounts, returns and other adjustments.

5. Inventories

	March 31 1987	1986	1985
		(in millions)	
FIFO cost	$901.5	$803.0	$601.2
Adjustment to LIFO	167.7	140.0	116.4
Inventories, principally at LIFO cost	$733.8	$663.0	$484.8

6. Discontinued Operations

In fiscal 1987, the Company sold its chemical operations. Prior years' financial information has been restated to include the chemical businesses in discontinued operations. The Company retained certain chemical sites and the responsibility for certain contingent liabilities (see Note 13).

During fiscal 1986, the Company completed the sale of its international foods operations. In fiscal 1985, the Company completed the sale of its domestic foods businesses and substantially completed the divestiture of its homebuilding operations.

The net assets of discontinued operations at March 31 included in Other Assets were as follows:

	1987	1986	1985
		(in millions)	
Total assets	$34.2	$211.4	$212.2
Total liabilities	15.8	121.7	96.7
Net assets	$18.4	$ 89.7	$115.5

At March 31, 1987, net assets include $5.5 million from international pharmaceutical operations, $15.2 million from homebuilding and net liabilities of $2.8 million from chemical operations. The assets consist primarily of land held for sale and investments in unconsolidated affiliates which will be liquidated over the next several years. The March 31, 1986 and 1985 net assets include $75.4 million and $73.1 million, respectively, from chemical operations.

Results of operations and dispositions of discontinued operations were as follows:

	1987	1986	1985
	Chemicals	(in millions) Int'l Foods	Home Furnishings Homebuilding
Revenues	$ 394.1	$628.6	$775.4
Income before taxes	$ 3.0	$ 8.2	$ 6.8
Provision for taxes on income	0.7	2.9	2.3
Net	2.3	5.3	4.5
Gain (loss) on dispositions	(13.1)	0.6	(11.5)
Provision (benefit) for taxes	(6.4)	2.1	(9.6)
Net	(6.7)	(1.5)	(1.9)
Income (loss) from discontinued operations	$ (4.4)	$ 3.8	$ 2.6

The $13.1 million loss on dispositions in fiscal 1987 includes $8.1 million from the sale of the chemical operations including provisions for cleanup costs at certain waste storage and disposal sites and other retained liabilities relating to the operations and a $3.7 million additional provision for potential liabilities under the Multiemployer Pension Plan Amendments Act of 1980 related to the sale of the dairy operations in fiscal 1983.

7. Long-Term Debt

	March 31 1987	1986	1985
		(in millions)	
Borrowings supported by bank revolving credit agreement	$ 15.1	$ 57.3	$ 72.1
Notes payable to banks	76.0	71.8	17.9
8⅞% Notes due 1991	74.7	74.6	
10¾% Notes due 1996	74.8	74.8	
8.65% to 10.25% Notes due through 1991	61.7	61.7	
6.5% to 11% IDRBs due through 2013	34.0	42.3	25.1
Capital lease obligations (averaging 11%)	10.8	14.8	18.5
Other, 6% to 15.7%, due through 1995	29.5	38.9	25.5
Convertible debentures			
9¾% due through 2006	65.4	80.0	80.0
9% due through 2005	7.8	10.0	
6% due through 1994	1.9	2.4	2.9
Total	451.7	528.6	242.0
Less current portion	55.3	38.4	8.1
Total	$ 396.4	$490.2	$233.9

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The Company has a revolving credit agreement with seven banks whereby the banks commit borrowing availability up to $180 million at the prime interest rate (7.5% at March 31, 1987) or money market-based rates. The agreement renews automatically each year. To terminate its participation, a bank must give at least 22½ months notice, in which event any borrowings outstanding at the expiration of the notice period must be repaid in four equal annual installments beginning July 15 of the year following the notice expiration period. The agreement contains limitations on additional indebtedness and lease obligations, and requires maintenance of minimum levels of working capital and net worth. Commitment fees paid to banks in fiscal 1987 were $0.4 million. Compensating balances were not required. At March 31, 1987, unused borrowing capacity under the revolving credit agreement was $164.9 million.

Notes payable to banks at March 31, 1987 include $45.8 million due through 1996 bearing interest at approximately 80% of the prime or 85% of money market interest rate, relating to the Employee Stock Ownership Plan ("ESOP") discussed in Note 11. The remaining $30.2 million bears interest at 9.2% to 9.7% and is due through January 2008.

The 9¾% debentures are convertible into common stock at $21.88 per share and are currently redeemable at 106.83% of principal. The 9% debentures, originally issued by Mass Merchandisers, Inc., are convertible into common stock at $24.42 per share. The 6% debentures are convertible into common stock at $15.33 per share.

Aggregate annual payments on long-term debt and capitalized lease obligations for the years ending March 31 are:

	Long-Term Debt	Capital Leases (in millions)	Total
1988	$ 54.4	$ 0.9	$ 55.3
1989	31.8	0.6	32.4
1990	22.2	0.5	22.7
1991	102.8	0.5	103.3
1992	8.3	0.6	8.9
Later years	221.4	7.7	229.1
Total	$440.9	$10.8	$451.7

8. Lease Obligations

The Company leases facilities and equipment under both capital and operating leases. Net assets held under capital leases included in property, plant and equipment were $9.4 million, $10.9 million and $13.4 million at March 31, 1987, 1986 and 1985. Amortization of capital leases is included in depreciation expense.

Future minimum lease payments and sublease rentals in years ending March 31 are:

	Non-cancellable Operating Leases	Non-cancellable Sublease Rentals (in millions)	Capital Leases
1988	$ 23.7	$ (1.9)	$ 1.7
1989	17.2	(1.6)	1.4
1990	11.9	(1.2)	1.3
1991	8.3	(1.0)	1.3
1992	5.8	(1.0)	1.2
Later years	37.2	(1.3)	14.8
Total minimum lease payments	$ 104.1	$ (8.0)	21.7
Less amounts representing interest			10.9
Present value of minimum capital lease payments			$ 10.8

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Rental expense was $42.4 million, $39.5 million and $30.7 million in fiscal 1987, 1986 and 1985.

Most real property leases contain renewal options and provisions requiring the Company to pay property taxes and operating expenses in excess of base period amounts.

9. Stockholders' Equity

In October 1986, the Company's common stock was split two-for-one effected in the form of a dividend. Per common share and common share amounts have been restated to reflect this split except that common share activity in the Statement of Consolidated Stockholders' Equity is shown as if the stock split occurred at April 1, 1986.

At March 31, 1987, there were a total of 6,000,000 shares of cumulative preferred stock ($35 par value) authorized, of which 245,724 shares classified as Series A and 117 shares classified as Series B preferred stock were authorized and outstanding and 5,754,159 shares of cumulative preferred stock were authorized and unissued. At March 31, 1986 and 1985, 286,221 and 323,390 Series A and B preferred shares were authorized and issued and 5,713,779 and 5,676,610 cumulative preferred shares, respectively, were authorized and unissued. Series A preferred shares are convertible, at the option of the holder, into 3.25 shares of common stock and are callable at $37 per share. Series B preferred shares are convertible, at the option of the holder, into 3.1818 shares of common stock and are callable at $35 per share. Each share of cumulative preferred stock has voting rights equivalent to a share of common stock.

At March 31, 1987, there were 10,000,000 shares of preferred stock (no par value) authorized and unissued. In May 1986, the Company's Board of Directors declared a dividend to common stockholders of rights to purchase, under certain conditions, Series A Junior Participating Series Preferred Stock. Such rights are exercisable only in the event of acquisition of 20% or more of the Company's common stock by another entity or a tender offer for 30% for more of the Company's common stock. Such rights will cause substantial dilution to a person or group that attempts to acquire the Company without conditioning the offer on a substantial number of rights being acquired. The rights expire in 1996.

At March 31, 1987, there were 120,000,000 shares of $2 par value common stock authorized, of which 42,515,487 were outstanding net of treasury shares and 4,233,000 common shares were reserved for conversion of cumulative preferred stock and convertible debentures. As discussed in Note 3, approximately 176,000 shares issued in the acquisition of MMI remain in escrow pending the resolution of certain contingent liabilities of MMI and are not included in outstanding shares.

Options to purchase common stock at various times through 1997 have been granted at market prices at date of grant to key employees.

Option information follows:

	1987	1986	1985
Option Shares			
Outstanding at beginning of year	3,864,564	3,229,288	2,823,478
Granted	22,700	892,180	851,664
Exchanged for options of acquired companies at prices of $1.26 to $19.35 per share		862,000	
Exercised at prices of $9.25 to $26.81 per share	(664,627)	(867,930)	(150,586)
Cancelled	(304,124)	(172,008)	(208,450)
Surrendered (stock appreciation rights)	(48,020)	(78,966)	(86,818)
Outstanding at year-end	2,870,493	3,864,564	3,229,288
Available for additional grants at end of year	1,819,388	1,501,338	244,914
Reserved at end of year	4,689,881	5,365,902	3,474,202
Exercisable at end of year	887,262	1,340,000	864,928
At year-end			
Range of outstanding option prices	$1.26-$31.81	$1.26-$26.81	$9.25-$23.50
Aggregate amounts (in millions)			
Option price	$56.8	$75.0	$59.6
Market value	$110.2	$117.4	$69.8

The options granted during the years ended March 31, 1986 and 1985 include 36,000 and 90,000 options with stock appreciation rights. No options were granted with stock appreciation rights in fiscal 1987. The option holders may exercise the option or, with the approval of the Compensation Committee of the Board of Directors, may receive the appreciation in the stock's value in the form of cash or stock.

The Company contributed to its profit-sharing investment plan 195,000, 206,000, and 246,000 common shares in fiscal 1987, 1986 and 1985. In addition, 1,000,000 shares were sold to the Employee Stock Ownership Plan in each of the fiscal years 1987 and 1985.

Certain debt agreements require that the Company maintain minimum levels of net worth. At March 31, 1987, net worth was approximately $189 million in excess of such minimum levels.

10. Taxes on Income

	1987	1986	1985
		(in millions)	
Current Provision			
Federal	$57.7	$45.2	$33.4
State and local	14.0	11.3	9.9
Foreign	2.5	1.8	0.6
Total	74.2	58.3	43.9
Deferred Provision			
Federal	1.5	10.4	13.6
State	0.7	1.2	0.8
Total	2.2	11.6	14.4
Total provision	$76.4	$69.9	$58.3

Federal taxes on income were reduced by $4.4 million in fiscal 1986 and $2.5 million in fiscal 1985 by investment tax credits recognized on the flow-through method. No investment tax credits were recognized in fiscal 1987 due to the elimination of investment tax credits retroactive to January 1, 1986 pursuant to The Tax Reform Act of 1986 (the "Act"). The fiscal 1987 deferred federal income tax provision was reduced by $6.2 million to reflect the cumulative effect of adjusting the amortization of tax benefit leases for the lower future tax rates established under the Act.

Deferred and prepaid taxes on income result from timing differences between income reported in the financial statements and taxable income. The tax effects of these differences are:

	1987	1986	1985
		(in millions)	
Deferred Provision			
Tax benefit leases	$(2.4)	$ 6.4	$10.4
Depreciation computed at accelerated rates for tax purposes	4.4	5.1	5.0
Other—net	0.2	0.1	(1.0)
Total	$ 2.2	$11.6	$14.4

The net current portion of prepaid and deferred taxes of $42.4 million at March 31, 1987, $27.0 million at March 31, 1986 and $15.5 million at March 31, 1985 is included in prepaid expenses. Deferred taxes included in the tax provision for discontinued operations were benefits of $21.6 million in fiscal 1987, expense of $5.8 million in fiscal 1986 and benefits of $12.2 million in fiscal 1985.

The reconciliation between the Company's effective tax rate on income from continuing operations and the statutory federal income tax rate follows:

	1987	1986	1985
Statutory federal income tax rate	46.0%	46.0%	46.0%
State and local income taxes	4.6	4.7	4.8
Nondeductible amortization	2.5	2.7	1.7
Capital gains	(2.9)	(0.6)	.1
ITC and tax benefit leases	(3.6)	(3.1)	(2.0)
Other—net	(2.4)	(1.2)	(2.3)
Effective tax rate	44.2%	48.5%	48.3%

11. Post-Retirement Benefits

Pension Plans

Substantially all full-time employees of the Company are covered under either Company sponsored defined benefit retirement plans or by union sponsored multiemployer plans. The benefits for Company sponsored plans are based primarily on age of employees at date of retirement, years of service and employees' pay during the five years prior to retirement. Pension expense for Company sponsored plans was $0.5 million in fiscal 1987, a negative $1.7 million in fiscal 1986, and $1.7 million in fiscal 1985. In fiscal 1986, the Company adopted Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions" ("SFAS 87") for the Company sponsored defined benefit plans. Pension expense for fiscal 1986 would have been approximately $4.2 million had the Company not adopted SFAS 87. In accordance with SFAS 87, pension expense for years prior to fiscal 1986 has not been restated. Pension expense in fiscal 1985 was reduced by $3.0 million as a result of changed actuarial assumptions for investment return, salary growth and amortization periods.

Net pension expense in fiscal 1987 and 1986 for the Company sponsored defined benefit retirement plan and executive supplemental retirement plan consisted of the following:

	1987	1986
	(in millions)	
Service cost—benefits earned during the year	$ 6.9	$ 3.9
Interest cost on projected benefit obligation	15.1	13.4
Return on assets — actual	(27.7)	(32.2)
— deferred gain	9.2	16.1
Amortization of unrecognized net transition asset	(3.0)	(2.9)
Net pension expense	$ 0.5	$ (1.7)

The funded status of Company sponsored defined benefit retirement plans at March 31 was as follows:

	1987	1986 (in millions)	1985
Actuarial present value of benefit obligations			
Vested benefits	$138.5	$113.8	$ 84.6
Nonvested benefits	14.3	11.7	8.3
Accumulated benefit obligation	152.8	125.5	92.9
Effect of assumed increase in future compensation levels	19.4	17.8	12.7
Projected benefit obligation for services rendered to date	172.2	143.3	105.6
Assets of plans at fair value	181.4	163.9	141.6
Excess of assets over projected benefit obligation	9.2	20.6	36.0
Unrecognized net loss from experience different from that assumed	27.3	15.6	
Unrecognized net transition asset, recognized over 13 years	(31.6)	(33.9)	(36.8)
Pension asset (liability) recognized on consolidated balance sheet	$ 4.9	$ 2.3	$ (0.8)

The projected benefit obligations for Company sponsored plans were determined using a discount rate of 8.5% at March 31, 1987, 9.9% at March 31, 1986 and 12.5% at March 31, 1985, and an assumed increase in future compensation levels of 5% at March 31, 1987 and 6% at both March 31, 1986 and 1985. The expected long-term rate of return on assets used to determine pension expense under SFAS 87 was 11.2% for fiscal 1987 and 11.8% for fiscal 1986. The assets of the plans consist primarily of listed common stocks and bonds.

The projected benefit obligation for the Company's executive supplemental retirement plan is $14.2 million of which $11.5 million is recognized as a liability on the consolidated balance sheet. There is a $2.7 million unrecognized net loss from experience different from that assumed.

The cost of multiemployer retirement plans was $3.0 million in fiscal 1987, $2.8 million in fiscal 1986 and $2.6 million in fiscal 1985.

Profit-Sharing Plan

Retirement benefits for non-union employees include a supplementary contributory profit-sharing plan. The contribution to the profit-sharing plan, including the ESOP portion, was $7.0 million in fiscal 1987, $6.0 million in fiscal 1986 and $3.7 million in fiscal 1985.

In January 1985, the Company amended its Profit-Sharing Investment Plan to add an ESOP. In fiscal 1985, the ESOP purchased 1,000,000 common shares from the Company for $17.9 million financed by a ten-year term loan from the Company. In fiscal 1987, the ESOP purchased an additional 1,000,000 common shares from the Company for $30.2 million financed by a ten-year bank loan guaranteed by the Company. The Company is required to provide the Plan with sufficient funds to service the Plan's debt. The ESOP note and guarantee balance in stockholders' equity will be reduced as the Plan's debt is reduced. Shares are allocated to Plan participants over the ten year term of the related debt.

Health Care and Life Insurance

In addition to providing pension benefits, the Company provides certain health care and life insurance benefits for retired employees. Of the employees who reach normal retirement age while working for the Company, substantially all will become eligible for these benefits. The cost of retiree health care and life insurance benefits is recognized as expense when claims are paid. These costs totaled $4.4 million in fiscal 1987, $4.2 million in fiscal 1986 and $3.9 million in fiscal 1985.

12. Segments of Business

	1987	1986 (in millions)	1985
Revenues			
Drug & Health Care	$ 4,828.9	$ 4,078.9	$ 2,849.8
General Merchandise	880.1	576.3	338.2
Beverage	956.8	1,000.1	1,037.1
Corporate	5.8	10.4	11.6
Total	$ 6,671.6	$ 5,665.7	$ 4,236.7
Operating Profit			
Drug & Health Care	$ 118.9	$ 111.1	$ 73.7
General Merchandise	48.1	37.2	31.2
Beverage	64.0	61.3	55.7
Total	231.0	209.6	160.6
Interest	(44.4)	(41.2)	(22.5)
Corporate	(26.8)	(24.4)	(17.4)
Special items	13.1		
Income before taxes on income	$ 172.9	$ 144.0	$ 120.7
Identifiable Assets—at year end			
Drug & Health Care	$ 1,325.7	$ 1,167.8	$ 714.2
General Merchandise	434.8	400.8	164.3
Beverage	264.0	262.1	288.7
Total	2,024.5	1,830.7	1,167.2
Corporate			
Cash and short-term investments	47.7	44.6	44.4
Net assets of discontinued operations	18.4	89.7	115.5
Other	117.0	122.5	137.9
Total	$ 2,207.6	$ 2,087.5	$ 1,465.0
Depreciation and Amortization			
Drug & Health Care	$ 20.7	$ 21.1	$ 14.4
General Merchandise	12.5	6.7	3.6
Beverage	15.4	15.0	14.8
Corporate	6.8	6.9	5.6
	$ 55.4	$ 49.7	$ 38.4
Capital Expenditures			
Drug & Health Care	$ 33.0	$ 25.2	$ 16.3
General Merchandise	8.5	19.8	2.8
Beverage	20.3	17.7	15.9
Corporate	4.1	14.0	21.6
	$ 65.9	$ 76.7	$ 56.6

Previously reported segment information has been restated to conform to the new business segment presentation. The Company operates in three business segments.

The Drug & Health Care segment includes wholesale operations that are distributors of ethical and proprietary drugs, beauty aids and toiletries and sundries serving retail drugstore and hospital pharmacy customers. The businesses in this segment also market home health care, veterinary, medical-surgical and first aid products, as well as computer services to retailers. The segment also includes the Company's majority-owned subsidiary, PCS, Inc., a provider of prescription drug claims processing and related consulting services to health plan sponsors.

The General Merchandise segment includes service merchandising operations, office products distribution operations and the Company's majority-owned Armor All Products Corporation subsidiary, a maker of automotive and household appearance protection products. The service merchandising businesses distribute health and beauty aids, and general merchandise to supermarkets, drug stores and convenience stores.

The Beverage segment includes the water operations which are engaged in the processing and sale of bottled drinking water and retail sales through vending machines in the Western and Sunbelt states. Beverage operations also include the wholesale distribution of wine and spirits, and represent most U.S. distillers, importers and wineries in one or more markets. Sales are made to liquor stores, restaurants, bars and other establishments from its distribution centers. Certain brands of alcoholic beverages are imported and marketed throughout the country.

13. Other Commitments and Contingent Liabilities

In addition to commitments and obligations in the ordinary course of business, the Company is subject to various claims, other pending and possible legal actions for products liability and other damages, investigations relating to governmental laws and regulations, contingent liability under the Multiemployer Pension Plan Amendments Act of 1980, and other matters arising out of the conduct of the Company's business.

The Company has received various claims and demands relating to the need for remedial actions to address environmental conditions alleged to exist at certain of the Company's facilities, and to the past use of various hazardous waste storage and disposal sites. Claims have been made by the United States Environmental Protection Agency under the Comprehensive Environmental Response Compensation and Liability Act of 1980 (the "Superfund" law) for cleanup costs at certain storage and disposal sites, including a wood treatment facility formerly operated by Mass Merchandisers, Inc. ("MMI"), acquired by the Company in October 1985. Under an escrow agreement, up to 176,000 shares of the Company's common stock, otherwise deliverable to MMI's former shareholders, is available to compensate the Company for up to 40% of costs incurred by the Company, in excess of $2 million, in the cleanup of the site.

In November 1983, the Company sold C.F. Mueller Company, a pasta manufacturer, to CPC International Inc. ("CPC"). In April 1985, CPC filed a complaint in the New York state court, seeking general damages of $61,000,000 and additional punitive damages claiming that the Company breached certain representations in the agreement. CPC also claims fraud and violations of certain state and federal securities laws by the Company, its investment banker, and three other defendants who were employees of the Company and Mueller at the time of sale. During the fiscal year, an intermediate New York appellate court dismissed the securities law violation counts against the Company and all counts against the other defendants. The New York Court of Appeals has granted a hearing on the appellate court's decision. Also during the fiscal year, a motion by CPC for summary judgment on certain issues was denied. Discovery is now scheduled to commence in the litigation.

All previously reported litigation arising from the 1983 Hawaiian milk products recall because of excessive levels of heptachlor has now been settled.

In view of the inherent difficulty in predicting the result of litigation and governmental proceedings, the Company cannot determine what the eventual outcome of such litigation and governmental proceedings will be. However, the Company believes, based on current knowledge and after consultation with its General Counsel, that the outcome of such litigation and proceedings will not have a material adverse effect on the Company's consolidated financial position or the results of its consolidated operations.

14. Summarized Financial Information for Mass Merchandisers, Inc. (unaudited)

The Company is joint obligor of the publicly traded 9% debentures originally issued by Mass Merchandisers, Inc. and the following summarized financial information for MMI is presented pursuant to the rules of the Securities and Exchange Commission.

	March 31		
	1987	1986	1985
		(in millions)	
Current assets	$109.1	$ 86.6	$ 82.9
Noncurrent assets	98.1	101.8	43.4
Current liabilities	(81.3)	(73.0)	(44.9)
Noncurrent liabilities	(13.4)	(30.4)	(34.7)
Net assets	$112.5	$ 85.0	$ 46.7

	Year Ended March 31		
	1987	1986	1985
		(in millions)	
Revenues	$426.9	$394.1	$336.5
Cost of sales	322.1	297.2	252.4
Net income	7.2	5.4	5.8

Balance sheet amounts at March 31, 1987 include purchase accounting adjustments, principally goodwill of $52.3 million resulting from the acquisition of MMI. Fiscal 1987 net income includes goodwill amortization of $1.3 million. The above information is not a part of the Company's consolidated financial statements prior to October 1985.

15. Quarterly Financial Information (unaudited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
	(in millions except per share amounts)				
Fiscal 1987					
Revenues	$1,555.6	$1,637.4	$1,765.2	$1,712.4	$6,671.6
Gross profit	$ 232.4	$ 239.5	$ 257.3	$ 250.0	$ 979.2
Income after taxes					
Continuing operations	$ 19.8	$ 22.1	$ 36.0*	$ 16.2	$ 94.1
Discontinued operations	1.4	1.8	(7.6)		(4.4)
Net Income	$ 21.2	$ 23.9	$ 28.4	$ 16.2	$ 89.7
Earnings per common share					
Fully diluted					
Continuing operations	$ .44	$ .48	$ .77	$ .35	$ 2.04
Discontinued operations	.03	.04	(.16)		(.09)
Total	$ .47	$ .52	$ .61	$ .35	$ 1.95
Primary					
Continuing operations	$ .47	$ .51	$ .82	$ .37	$ 2.17
Discontinued operations	.03	.04	(.17)		(.10)
Total	$ .50	$ .55	$ .65	$ .37	$ 2.07
Cash dividends per share					
Common	$ .30	$ .32	$ .32	$ .32	$ 1.26
Series A preferred	.45	.45	.45	.45	1.80
Series B preferred	.51¼	.51¼	.51¼	.51¼	2.05
Market prices per common share					
Low	$ 27¼	$ 28½	$ 29	$ 32	$ 27¼
High	32⅝	33⅜	35¼	39	39
Fiscal 1986					
Revenues	$1,212.3	$1,393.4	$1,525.2	$1,534.8	$5,665.7
Gross profit	$ 193.1	$ 209.4	$ 247.3	$ 231.1	$ 880.9
Income after taxes					
Continuing operations	$ 16.6	$ 18.5	$ 21.7	$ 17.3	$ 74.1
Discontinued operations	.3	.5	.5	2.5	3.8
Net Income	$ 16.9	$ 19.0	$ 22.2	$ 19.8	$ 77.9
Earnings per common share					
Fully diluted					
Continuing operations	$ .42	$ .46	$ .50	$ .38	$ 1.76
Discontinued operations	.01	.01	.01	.05	.08
Total	$ .43	$ .47	$ .51	$ .43	$ 1.84
Primary					
Continuing operations	$ .45	$ .49	$ .54	$ .40	$ 1.88
Discontinued operations	.01	.01	.01	.07	.10
Total	$ .46	$ .50	$ .55	$ .47	$ 1.98
Cash dividends per share					
Common	$ .30	$ .30	$ .30	$ .30	$ 1.20
Series A preferred	.45	.45	.45	.45	1.80
Series B preferred	.51¼	.51¼	.51¼	.51¼	2.05
Market prices per common share					
Low	$ 21	$ 22 7/16	$ 22¾	$ 24¾	$ 21
High	25	24⅞	26¾	30⅝	30⅝

* Includes special items discussed in Note 2.

McKESSON CORPORATION—CONSOLIDATED
AMOUNTS RECEIVABLE FROM RELATED PARTIES AND UNDERWRITERS, PROMOTERS, AND EMPLOYEES (OTHER THAN RELATED PARTIES)
FOR THE YEARS ENDED MARCH 31, 1987, 1986 AND 1985

(in thousands)

Column A	Column B	Column C	Column D	Column E	
				Balance at End of Period	
Name of Debtor	Balance at Beginning of Period	Additions	Deductions Amounts Collected	Due Within One Year	Due After One Year
Officers and Employees:					
Year ended March 31, 1987					
T. Field (1) (4)	$1,042	$ 42	$ 77	$ 77	$930
C. Andrews (4)	114	-			114
A. Chong (4)		100			100
D. Fawcett (2)	125			125	—
M. Ferriter (4)	100				100
D. Forelli (4)	145				145
J. Gillen (4)	145				145
R. Herrmann (1)	118	11		53	76
K. Hicken (1) (4)	721	28	53	53	643
A. Nicolai (4)	122				122
A. Seelenfreund (1)	120	9	28	28	73
D. Schoonmaker (4)		224		224	
R. Viscount (4)	325				325
D. Wakefield (4)	145				145
D. Yellon (1)	59	3	62		—
Year ended March 31, 1986					
T. Field (1) (4)	$1,073	$ 46	$ 77	$ 77	$965
C. Andrews (4)	126	114	126		114
D. Fawcett (2)	125			125	—
M. Ferriter (4)		100			100
D. Forelli (4)		145			145
J. Gillen (4)		145			145
R. Herrmann (1)	257	16	155	29	89
K. Hicken (1) (4)	813	430	522	53	668
N. Markus (1)	159	11	170		—
A. Nicolai (4)		122			122
A. Seelenfreund (1)	137	11	28	33	87
R. Viscount (4)	100	325	100		325
D. Wakefield (4)	105	145	105		145
R. Wardell (2)	110		110		—
D. Yellon (1)	374	4	319	14	45
Year ended March 31, 1985					
T. Field (1) (4)	$	$1,112	$ 39	$ 77	$996
C. Andrews (2)		126			126
T. Drohan (1)	535	17	552		—
D. Fawcett (2)	125				125
R. Herrmann (1)	280	25	48	48	209
K. Hicken (1) (3)	470	343		53	760
N. Markus (1)	172	16	29	29	130
G. Merrick (1)	129	8	137		—
A. Seelenfreund (1)	153	12	28	33	104
R. Viscount (2)	100				100
D. Wakefield (2)		105			105
R. Wardell (2)		110			110
D. Yellon (1) (3)	383	5	14	14	360

Notes: (1) Includes recourse notes relating to the Company's Stock Purchase Plan bearing rates from 7% to 10% due in installments through 1992 and collateralized with common stock of the Registrant.

(2) This amount includes a personal loan at 7% interest due within four years.

(3) Includes a secured loan with shared appreciation in lieu of interest that was repaid in fiscal 1986.

(4) Includes a loan secured by a deed of trust that is non-interest bearing so long as the individual remains in the employ of the Company.

McKESSON CORPORATION—CONSOLIDATED
VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED MARCH 31, 1987, 1986 AND 1985
(in thousands)

Column A	Column B	Column C		Column D	Column E
		Additions			
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
Year ended March 31, 1987					
Receivables	$26,027	$10,986	$ 319(3)	$ 9,945(1)	$27,387(2)
Year ended March 31, 1986					
Receivables	$18,144	$15,200	$6,471(3)	$13,788(1)	$26,027(2)
Year ended March 31, 1985					
Receivables	$12,415	$ 8,141	$1,524(3)	$ 3,936(1)	$18,144(2)

Notes:

	1987	1986	1985
(1) Deductions:			
Written off	$11,858	$14,310	$ 6,844
Credited to other accounts	(1,913)	(522)	(2,908)
Total	$ 9,945	$13,788	$ 3,936
(2) Amounts shown as deduction from:			
Current receivables	$20,522	$20,608	$11,772
Other receivables	6,865	5,419	6,372
Total	$27,387	$26,027	$18,144

(3) Recorded on the books of companies acquired.

MCKESSON CORPORATION—CONSOLIDATED
SHORT-TERM BORROWINGS (1)
FOR THE YEARS ENDED MARCH 31, 1987, 1986 AND 1985
(in thousands)

Column A	Column B	Column C	Column D	Column E(2)	Column F(2)
Category of short-term borrowings	Balance at end of period	Weighted average interest rate	Maximum amount outstanding during the period	Average amount outstanding during the period	Weighted average interest rate during the period
Year ended March 31, 1987					
Bank borrowings	$ —	—%	$ 70,000	$ 5,967	8.2%
Commercial paper	14,950	6.5%	110,893	26,535	7.0%
Year ended March 31, 1986					
Bank borrowings	33,000	8.5%	241,000	41,677	8.7%
Commercial paper	24,340	8.1%	254,981	123,459	8.5%
Year ended March 31, 1985					
Bank borrowings	34,000	9.1%	114,000	17,750	9.8%
Commercial paper	38,068	9.2%	175,580	67,833	10.3%

Notes: (1) Includes amounts classified as noncurrent for financial reporting purposes.

(2) Based on average daily balances.

McKESSON CORPORATION—CONSOLIDATED
SUPPLEMENTARY INCOME STATEMENT INFORMATION
FOR THE YEARS ENDED MARCH 31, 1987, 1986 AND 1985
(in thousands)

Column A	Column B Charged to Costs and Expenses		
Item	1987	1986	1985
3. Taxes, other than payroll and income taxes:			
State and local alcoholic beverage taxes	$62,666	$63,240	$75,500
Other, primarily duty and sales	62,296	69,017	77,731

All other items required by Rule 12-11 of Regulation S-X are omitted because they are less than 1% of total sales and revenues.

EXHIBIT INDEX

Exhibit Number	Description
* (3)A	Articles of Restatement of the Charter of McKesson Corporation effective January 8, 1987 (Exhibit (3)A to the Form SE dated June 23, 1987).
* (3)B	By-Laws of McKesson Corporation, as amended through June 3, 1987 (Exhibit (3)B to the Form SE dated June 23, 1987).
(4)A	Registrant agrees to furnish to the Commission upon request a copy of each instrument with respect to issues of long-term debt of the Registrant, the authorized principal amount of which does not exceed 10% of the total assets of Registrant.
*(4)B	Rights Agreement dated as of May 7, 1986 between the company and Morgan Guaranty Trust Company of New York, as Rights Agent (Exhibit 4 to the Form SE filed May 16, 1986).
*(4)C	Form of Indenture dated as of July 1, 1985, between Registrant and Chemical Bank, as Trustee, including the forms of Debt Securities (Exhibit 4 to Post-Effective Amendment No. 1 to Registration Statement No. 2-98983 on Form S-3).
*(10)A	McKesson Corporation Management Incentive Plan, as amended through November 7, 1984 (Exhibit 19(c) to the Form SE filed February 14, 1985).
*(10)B	McKesson Corporation Deferred Compensation Administration Plan, as amended through July 25, 1984 (Exhibit 19(e) to Quarterly Report on Form 10-Q for the quarter ended June 30, 1984.
*(10)C	McKesson Corporation 1985 Executives Elective Deferred Compensation Plan, as amended through February 5, 1986 (Exhibit (10)A to the Form SE filed June 24, 1986).
*(10)D	McKesson Corporation Directors' Deferred Compensation Plan, as amended through February 5, 1986 (Exhibit (10)B to the Form SE filed June 24, 1986).
*(10)E	Description of McKesson Corporation Retirement Program for Outside Directors as amended through November 5, 1986. (Exhibit (10)H to the Form SE filed June 23, 1987)
*(10)F	McKesson Corporation 1985 Directors Elective Deferred Compensation Plan, as amended through February 5, 1986 (Exhibit (10)C to the Form SE filed June 24, 1986).
*(10)G	McKesson Corporation 1973 Stock Purchase Plan, as amended through September 7, 1983 (Exhibit (10)A to the Form SE filed June 18, 1985).
*(10)H	McKesson Corporation 1970 Stock Option Plan, as amended through September 2, 1981 (Exhibit 20(d) to Quarterly Report on Form 10-Q for the quarter ended September 30, 1981).
*(10)I	McKesson Corporation 1978 Stock Option Plan, as amended through June 3, 1987 (Exhibit (10)A to the Form SE dated June 23, 1987).
*(10)J	Employee Qualified Stock Option Plan of Spectro Industries, Inc. (Exhibit 4.1(a) to the Form SE filed May 30, 1985).
*(10)K	Second Employee Incentive Stock Option Plan of Spectro Industries, Inc. (Exhibit 4.2(a) to the Form SE filed May 30, 1985).
*(10)L	S-P Drug Co., Inc. 1983 Incentive Stock Option Plan (Annex A to the Company's Registration Statement on Form S-8, Registration Statement No. 33-00197).
*(10)M	1984 Restatement of Napco Industries, Inc. (now Mass Merchandisers, Inc.) Stock Option Plan for Salaried Employees (Annex A to the Company's Post-Effective Amendment on Form S-8 to Form S-4 Registration Statement No. 2-99780).

Exhibit Number	Description
*(10)N	McKesson Corporation 1984 Executive Benefit Retirement Plan, as amended through June 3, 1987 (Exhibit (10)B to the Form SE dated June 23, 1987).
*(10)O	McKesson Corporation 1984 Management Benefit Plan (Exhibit (10)B to the Form SE filed June 18, 1985).
*(10)P	McKesson Corporation 1984 Executive Insurance Plan, effective November 7, 1984 (Exhibit 19(b) to the Form SE filed February 14, 1985).
*(10)Q	1981 Long-Term Incentive Plan of McKesson Corporation, as amended through June 1, 1983. (Exhibit (10)C to the Form SE filed June 18, 1985).
*(10)R	Employment Agreement (effective as of July 23, 1984) between the Company and its President and Chief Operating Officer, as revised to correct a typographical error on page 5 (Exhibit 19 to the Form SE filed August 13, 1985).
*(10)S	Letter agreement amending Employment Agreement between the Company and its President and Chief Operating Officer (Exhibit 19 to the Form SE filed February 14, 1985).
*(10)T	Second Amendment to Employment Agreement between the Company and its President and Chief Executive Officer made effective as of November 5, 1986 (Exhibit (10)C to the Form SE dated June 23, 1987).
*(10)U	Employment Agreement entered into as of August 1, 1986 between the Company and its Chairman of the Board (Exhibit (10)D to the Form SE dated June 23, 1987).
*(10)V	Form of revised Employment Agreement between the Company and certain designated Corporate Officers (Exhibit (10)E to the Form SE dated June 23, 1987).
*(10)W	Amendment to form of revised Employment Agreement between the Company and certain designated Corporate Officers (Exhibit 10(F) to the Form SE dated June 23, 1987).
*(10)X	Form of Termination Agreement to be entered into by and between the Corporation and certain designated corporate officers (Exhibit (10)G to the Form SE dated June 23, 1987).
*(10)Y	Agreement and Plan of Merger dated as of April 11, 1985, among the Company, MCK Acquisition Corporation, a wholly-owned subsidiary of the Company, and Spectro Industries, Inc. (Exhibit(c)(1) to the Company's Schedule 14D-1 filed on April 18, 1985).
*(10)Z	Agreement and Plan of Merger dated as of May 20, 1985, among the Company, MCK Acquisition Corporation, a wholly-owned subsidiary of the Company, and S-P Drug Co., Inc. (Exhibit (c)(1) to the Company's Schedule 14D-1 filed on May 28, 1985).
*(10)AA	Agreement and Plan of Reorganization dated as of May 6, 1985 and as amended as of June 28, 1985 and amended as of August 12, 1985 by and among the Company, MCK Acquisition Corporation ("Acquisition") and Mass Merchandisers, Inc. ("MMI") (Annex I to the Company's Rule 424(b) prospectus used in connection with Registration Statement No. 2-99780).
*(10)BB	Form of Agreement of Merger between Acquisition and MMI (Exhibit A to the Agreement and Plan of Reorganization attached as Annex I to the Company's Rule 424(b) prospectus used in connection with Registration Statement No. 2-99780).
*(10)CC	Escrow Agreement dated October 29, 1985 among the Company, Acquisition, MMI, Morris M. Sherman and Gary B. Rappaport, as representatives, and Crocker National Bank, as escrow agent (Exhibit 2 to the Form SE filed November 8, 1985).
*(10)DD	Asset Purchase and Sale Agreement dated as of September 19, 1986, between and among Pakhoed Holding NV, Pakhoed Investeringen BV, DSW, Inc. (now named Van Waters & Rogers Inc.) and McKesson Corporation (Exhibit 28.1 to the Form SE dated November 24, 1986).

Exhibit Number	Description
*(10)EE	Indemnity and Guaranty Agreement dated as of October 31, 1986, between and among McKesson Corporation, DSW, Inc. (now named Van Waters & Rogers Inc.), Univar Corporation, Pakhoed Holding NV, Pakhoed Investeringen BV, Paktank International BV, Pakhoed USA, Inc. and Pakhoed Corporation (Exhibit 28.3 to the Form SE dated November 24, 1986)
(11)	Computation of earnings per share for the five years ended March 31, 1987.
(22)	Subsidiaries of the Registrant.
(24)	Consent of Independent Public Accountants.

* Document has heretofore been filed with the Commission and is incorporated by reference and made a part hereof.

Exhibit (11)

McKESSON CORPORATION

COMPUTATION OF EARNINGS PER COMMON SHARE(1) FOR THE YEARS ENDED MARCH 31

(in thousands except per share amounts)

	1987	1986	1985	1984	1983
FULLY DILUTED EARNINGS PER SHARE					
Income after taxes from continuing operations	$94,069	$74,148	$62,425	$57,765	$51,340
Interest charges—net of tax					
9¾% debentures	3,562	3,875	3,875	3,896	3,896
9% debentures	432	186			
6% debentures	61	76	98	148	310
	98,124	78,285	66,398	61,809	55,546
Income after taxes from discontinued operations	(4,413)	3,800	2,529	10,898	5,153
Total	$93,711	$82,085	$68,927	$72,707	$60,699
Fully diluted shares					
Common shares outstanding(2)	43,351	39,550	35,812	35,702	33,142
Convertible securities—dilutive					
Series A preferred stock	875	984	1,148	1,334	1,548
Series B preferred stock	2	2	14	18	18
9¾% debentures	3,441	3,658	3,656	3,656	3,656
9% debentures	397	170			
6% debentures	139	172	242	520	828
Total	48,205	44,536	40,872	41,230	39,192
Fully diluted earnings per share					
Continuing operations	$ 2.04	$ 1.76	$ 1.63	$ 1.50	$ 1.42
Discontinued operations	(.09)	.08	.06	.26	.13
Total	$ 1.95	$ 1.84	$ 1.69	$ 1.76	$ 1.55
PRIMARY EARNINGS PER SHARE					
Income after taxes from continuing operations	$94,069	$74,148	$62,425	$57,765	$51,340
Dividend requirements—Series A and Series B preferred stock	(481)	(541)	(608)	(695)	(816)
	93,588	73,607	61,817	57,070	50,524
Income after taxes from discontinued operations	(4,413)	3,800	2,529	10,898	5,153
Total	$89,175	$77,407	$64,346	$67,968	$55,677
Common shares outstanding(2)	43,058	39,106	35,746	35,964	33,182
Primary earnings per share					
Continuing operations	$ 2.17	$ 1.88	$ 1.73	$ 1.59	$ 1.52
Discontinued operations	(.10)	.10	.07	.30	.16
Total	$ 2.07	$ 1.98	$ 1.80	$ 1.89	$ 1.68

(1) Per share and common share amounts have been restated for the two-for-one split of the Company's common stock effective October 1, 1986 and operating results have been restated to reflect the discontinuance of the Company's chemical operations.

(2) Common shares outstanding have been computed by adding the monthly averages (beginning of the month plus end of the month divided by 2), dividing the aggregate by 12 and adjusting this total for dilutive stock options using the treasury stock method.

SUBSIDIARIES OF THE REGISTRANT

There is no parent of the Company. The following is a listing of the significant subsidiaries of the Company, or if indented, subsidiaries of the Company under which they are listed:

	Jurisdiction of Organization
Alhambra National Water Co., Inc.	California
Armor All Products Corporation	Delaware
Armor All Products of Canada, Inc.	Canada
LNP Products, Inc.	California
Armor All Products GmbH	West Germany
Calox International, S.A.	Panama
Calox Ecuatoriana, S.A.	Ecuador
Calox Panamena, S.A.	Panama
Crocker Plaza Company	Delaware
D.R.L.-S.p.A.	Italy
First Aid, Inc.	California
Zee Medical, Inc.	California
Foremost Dairies—Hawaii, Ltd.	Hawaii
Foremost-McKesson Canada, Inc.	Canada
Foremost-McKesson Capital Corporation N.V.	Netherlands Antilles
Foremost-McKesson Property Company, Inc.	California
DC Land Company	California
DCAZ Land Company	Delaware
HF Land Company	Delaware
Garrett-Hewitt International, Inc.	California
Golden State Insurance Company Limited	Bermuda
International Dairy Engineering Co. of Asia, Inc.	Nevada
Macfor International Finance Company	Delaware
Mass Merchandisers, Inc.	Indiana
Arkwood Products, Inc.	Minnesota
Carlstrom Foods, Inc.	Missouri
Mass Merchandisers of Texas, Inc.	Texas
Western States Wholesale, Inc.	South Dakota
Millbrook Distributors, Inc.	Massachusetts
Monterey Bay Company, Inc.	California
Mount Gay Distilleries Limited	Barbados
PCS, Inc.	Delaware
Medilog Corporation	California
Medilog GmbH	West Germany
Medilog Markt-und Meinungsgesellschaft mbh	Austria
PCS of New York, Inc.	New York
Pharmaceutical Card System Canada, Inc.	Canada
Pharmaceutical Data Services, Inc.	Delaware
RDR Drug & Sundry Corporation	California
S-P Drug Co., Inc.	New York
Adam Rack Distributors, Inc.	New York
Sparkletts Drinking Water Corporation	California
Hygeia Bottled Water, Inc.	Texas
Spectro Industries, Inc.	Delaware
District Wholesale Drug Corporation	Delaware
District Hospital Supply Co., Inc.	Maryland
Loewy Drug Company, Inc.	Maryland
Goodman Manufacturing Company	Pennsylvania
Hempfield Industries, Inc.	Pennsylvania
Lancaster Motor and Gear Assembly Company	Pennsylvania
Massachusetts Wholesale Drug Co.	Delaware
Penn-Chem Corporation	Pennsylvania
Spectro Business Systems, Inc.	Delaware
Toub Distributors, Inc.	Delaware
West Wholesale Drug Co.	Delaware
"21" Brands, Inc.	New York
Mohawk Liqueur Corporation	Michigan

EXHIBIT (24)

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

McKesson Corporation:

We hereby consent to the incorporation by reference in Registration Statements No. 2-51606, 2-54544, 2-73514, 2-86567, 2-97752, 33-00197 and 33-10383 on Form S-8, in Post-Effective Amendment No. 1 on Form S-8 to Registration Statement No. 2-99780 on Form S-4, and in Registration Statement No. 33-2577 on Form S-3 of our opinion dated May 22, 1987 appearing in this Annual Report on Form 10-K of McKesson Corporation for the year ended March 31, 1987.

DELOITTE HASKINS & SELLS

San Francisco, California
May 22, 1987

First Quarter Report
Three months ended May 31, 1987

Operating results for the quarter ended May 31, 1987, improved sharply compared to both the immediately preceding three months and the same period a year ago.

Univar Corporation

To the Shareholders of Univar Corporation:

RESULTS OF OPERATIONS — Operating results for the quarter ended May 31, 1987, improved sharply compared to both the immediately preceding three months and the same period a year ago.

We began to achieve some of the benefits of our November 1, 1986, acquisition of the assets of McKesson Chemical Co. (MCC), and have now passed the worst period of acquisition-related costs which were so heavy in the final quarter of the last fiscal year.

For the quarter, net income was $2,769,000 or $.32 per share on sales of $275,146,000. For the same period a year ago, net income totaled $382,000 or $.07 per share on sales of $133,495,000 (excluding the MCC operations, which have been accounted for as a purchase).

This improvement in per-share results demonstrates our ability to overcome both the interest costs on the additional debt and the increase in shares outstanding that accompanied the MCC acquisition. Per-share calculations for the March/May 1987 quarter are based on 8,754,932 shares, while for the same quarter a year ago the share count was 5,649,764.

CORPORATE STAFF RESTRUCTURING — Shortly after the end of the quarter, we announced our intention to consolidate the staff offices of Van Waters & Rogers Inc. in San Mateo, California into the corporate headquarters in Seattle, Washington.

The separate staff offices were a result of Univar's history of operating through several independent subsidiaries. Our program of sales and spinoffs (of non-industrial chemical distribution operations) to our shareholders was completed a little over a year ago. Now that our business is concentrated solely on industrial chemical distribution activities, a consolidation will be advantageous both in terms of operating expenses and in improved communications between individuals in the various staff functions that support field operations.

OFFICER RETIREMENTS AND ELECTIONS — In conjunction with the consolidation referred to above, Mr. Robert A. Steinseifer, President of Van Waters & Rogers Inc., has elected not to relocate to Seattle, and has announced his intention to take early retirement at the end of the current fiscal year.

Mr. Steinseifer has served the Corporation for 35 years in a number of important positions and will be truly missed by the many customers, suppliers, employees and friends of Van Waters & Rogers Inc.

After Mr. Steinseifer's retirement, the four U.S. operating regions and various staff functions will report directly to the office of the President of Univar.

In light of the greatly increased size and complexity of the Company's operations, we see a requirement to further strengthen our top management organization. As one of a number of steps to accomplish this objective, Mr. Nicolaas Samsom has been elected Vice President, Administration, of Univar. Mr. Samsom,

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who has had a 30-year career with Van Waters & Rogers Ltd., presently serves as Vice President and Treasurer, and as a Director of that company. His new duties will include supervision over a wide range of staff and administrative functions at the corporate office level.

DIVIDENDS — On June 6, a regular cash dividend of $.05 per share was paid to shareholders of record May 17, 1987.

At its meeting on June 25, 1987, the Board of Directors declared a regular quarterly dividend in the amount of $.05 per share, payable on September 8 to shareholders of record August 14, 1987.

ANNUAL MEETING — The annual meeting of shareholders of Univar will be held on August 21, 1987, at 11:00 a.m. in the 12th floor auditorium of the Rainier Bank Tower in Seattle. Proxy materials were mailed to shareholders of record July 1, 1987, on or about July 7, 1987.

Matters to be voted on at the meeting will include the election of four directors for terms which will expire in 1990, approval of an amendment to the Certificate of Incorporation of the Corporation to limit the liability of its directors in certain circumstances, and confirmation of Arthur Andersen & Co. as independent auditors for the year ending February 29, 1988.

Please sign and return your proxy promptly, whether or not you plan to attend the annual meeting. If you attend, you may revoke your proxy at that time and vote in person.

OUTLOOK — At present, our markets, which are a broad spectrum of industrial and commercial accounts, seem healthy and are growing at a steady pace. Inflation is occurring in energy and chemical prices, but at relatively low rates. We have not lost market share or suffered gross margin reductions, which we thought might happen in the short term after the MCC transaction.

Accordingly, we are able to focus our current efforts on consolidations which will improve our capital usage efficiency, and on service improvements to more effectively use our new capability to serve our customers.

While the level of change occurring in the company does mean at least temporary additional expense loads, we are encouraged by the results achieved over the past few months and expect our personnel to continue to successfully develop the strength and profitability of the business.

Sincerely,

Jim Bernard

James W. Bernard
President and Chief Executive Officer

UNIVAR CORPORATION and Subsidiaries

Consolidated Balance Sheets (Unaudited/See Notes)

(In Thousands)

Assets

Current assets
Investments and long-term receivables
Property, plant and equipment—net
Other assets
Total assets

Liabilities and Shareholders' Equity

Current liabilities
Long-term debt
Deferred items
Shareholders' equity
Total liabilities and shareholders' equity

BR001166

d (See Notes)

	May 31, 1987	Feb. 28, 1987
	$212,863	$194,351
	13,403	14,437
	135,864	136,616
	1,092	1,151
	$363,222	$346,555
	$153,397	$143,150
	107,355	102,776
	15,108	15,561
	87,362	85,068
y	$363,222	$346,555

UNIVAR CORPORATION and Subsidiaries

Consolidated Statements of Income *Unaudited (See Notes)*

(In Thousands)	*Three Months Ended May 31* 1987	1986
Sales	$275,146	$133,495
Cost of sales	234,731	114,366
Gross margin	40,415	19,129
Operating expense	33,907	17,643
Income from operations	6,508	1,486
Other income (expense):		
Interest expense	(2,217)	(1,202)
Other income—net	804	380
Income before provision for taxes	5,095	664
Provision for taxes on income	2,326	282
Net income	$ 2,769	$ 382
Net income per share	$ 0.32	$ 0.07

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UNIVAR CORPORATION and Subsidiaries

Consolidated Statements of Changes in Financial Position *Unaudited (See Notes)*

(In Thousands)	*Three Months Ended May 31* 1987	1986
Funds Provided:		
From Operations—		
Net income	$ 2,769	$ 382
Items not affecting funds—		
Depreciation	3,560	1,336
Other—net	(418)	(97)
	5,911	1,621
From other sources—		
Decrease (increase) in investments & long-term receivables	1,032	(181)
Decrease in other assets	59	442
Long-term debt incurred	5,000	---
Exercise of stock options	34	---
	6,125	261
From changes in certain elements of working capital—		
Accounts receivable	(4,316)	2,444
Inventories	(10,302)	(2,553)
Other current assets	(3,894)	2,601
Accounts payable	4,673	4,350
Other current liabilities	9,651	(4,010)
	(4,188)	2,832
Total funds provided	7,848	4,714
Funds Used:		
Net plant additions	2,808	2,678
Payment of dividends	434	280
Reduction in long-term debt	421	380
Decrease (increase) in deferred credits	5	(35)
Translation adjustment	102	(656)
Total funds used	3,770	2,647
Decrease in short-term borrowing—net of change in cash	$ 4,078	$ 2,067

NOTES:

1. Effective November 1, 1986, Univar Corporation purchased the net assets of McKesson Chemical Co. in a transaction accounted for as a purchase. Accordingly, the results of operations for the quarter ended May 31, 1987 include the combined operations of both entities, and may not necessarily be comparable with the same period of the prior year.
2. The LIFO method of pricing is used for approximately 85% of the company's inventory. Because the inventory determination under the LIFO method is made at the end of each fiscal year, interim financial results are based on estimated LIFO adjustments and are subject to final year-end LIFO inventory amounts.

Univar CORPORATION
1600 Norton Building
Seattle, Washington 98104

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Univar Corp.

2370

NYSE Symbol UVX

Price	Range	P-E Ratio	Dividend	Yield	S&P Ranking	Beta
May 6'87 18	1987 18-10¾	35	0.20	1.1%	B+	1.06

Summary

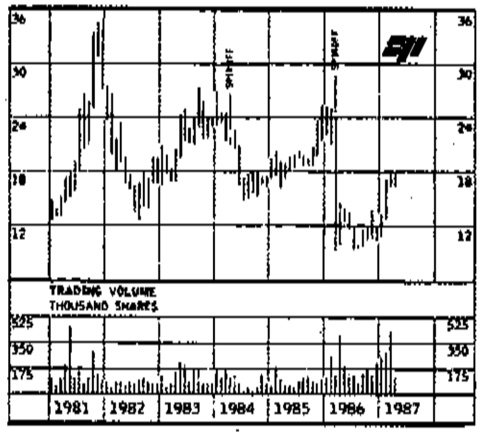
Univar distributes a broad range of industrial chemicals and related products. Operations were expanded significantly with the November, 1986 acquisition of McKesson Chemical Co., and UVX is now the largest industrial chemical distributor in North America. Pakhoed Holding, N.V. owns about 35% of the common stock.

Business Summary

Univar is engaged in the wholesale distribution of a broad range of industrial chemicals and related products. Operations were expanded significantly with the November, 1986 acquisition of the McKesson Chemical Co. The latter, with sales of $604 million for the fiscal year ended March 31, 1986, distributes industrial chemicals. The acquisition also enabled Univar to become the largest industrial chemical distributor in North America. Concurrent with the McKesson acquisition, assets of Univar's Van Waters & Rogers division in the U.S. were combined with the McKesson operations and those operations are now carried on through a subsidiary, Van Waters & Rogers, Inc. Activities in Canada are carried on through the Van Waters & Rogers, Ltd. subsidiary. Non-chemical operations, which were spun off to shareholders in March, 1986 under the name VWR Corp., consisted of VWR Scientific, VW&R Home Furnishings, and Acacia.

Giving effect to the VWR spin off, foreign sales (all in Canada) accounted for 22% of total sales in fiscal 1985-6.

Products distributed by the company are used in many areas, including public health & safety (water treatment, sewage treatment, and ice, dust, and rodent control); the petroleum industry (oil and gas drilling, petroleum refining, natural gas processing, and petrochemical production); paints and coatings (paint ingredients, solvents, and oils); pest control (insecticides, rodenticides, fumigants, herbicides, and fungicides); the food industry (food production, processing and packing); metal extraction, processing, and finishing (mining, milling, refining, plating & finishing, and electronics); textile maintenance (laundry and dry cleaning products); and wood pulp and paper (forestry, pulp and paper manufacturing, and water treatment).



Important Developments

Nov. '86—UVX acquired McKesson Chemical Co. for $76 million, subject to adjustment and certain additional liabilities. The acquisition was accomplished in three steps: (1) Pakhoed Holding, N.V., a Dutch company, capitalized a U.S. subsidiary with about $26 million; (2) the subsidiary acquired McKesson Chemical for an estimated purchase price of $76 million; and (3) Pakhoed exchanged the stock of the subsidiary for 3,053,000 UVX common shares resulting in a 35% ownership of UVX by Pakhoed.

Oct. '86—UVX said that it did not expect to achieve the inherent earnings potential of the combined companies (UVX and McKesson) until a reorganization period of two or three years.

Next earnings report expected in late May.

Per Share Data ($)

Yr. End Feb. 28	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978
Book Value	NA	8.03	17.09	18.41	17.58	17.34	15.25	13.26	11.48	10.53
Earnings[1]	NA	0.76	2.85	1.33	0.92	3.21	2.65	2.35	1.40	1.20
Dividends	0.20	0.80	0.68	0.68	0.68	0.68	0.66	0.56	0.56	0.56
Payout Ratio	NA	105%	24%	51%	74%	20%	25%	24%	39%	47%
Calendar Years	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977
Prices—High	25½	25½	27	27½	27¾	35	15	12⅝	9¾	11
Low	9⅜	16¼	14¾	16½	12⅝	12⅝	9¼	6¾	6⅞	8⅛
P/E Ratio—	NA	34-21	9-5	21-12	30-14	11-4	6-3	5-3	7-5	9-7

Data as orig. reptd. 1. Bef. results of disc. opers of +1.14 in 1986, +0.33 in 1984. NA-Not Available. NM-Not Meaningful. d-Deficit.

Standard & Poor's Corp.
25 Broadway, NY, NY 10004

Income Data (Million $)

Year Ended Feb. 28	Revs.	Oper. Inc.	% Oper. Inc. of Revs.	Cap. Exp.	Depr.	Int. Exp.	Net Bef. Taxes	Eff. Tax Rate	[3]Net Inc.	% Net Inc. of Revs.
[1]1986	538	16.2	3.0%	10.4	4.8	6.1	[4] 6.6	35.3%	4.3	0.8%
1985	952	25.7	2.7%	18.2	6.0	9.8	[4]25.5	38.0%	15.8	1.7%
[1]1984	881	24.8	2.8%	12.5	5.2	8.4	[4]12.3	40.0%	[5] 7.4	0.8%
1983	930	34.2	3.7%	23.7	11.9	20.1	[4] 5.0	NM	6.1	0.6%
1982	954	46.4	4.9%	49.1	9.6	21.9	[4]24.4	24.1%	18.5	1.9%
1981	970	50.3	5.2%	52.0	9.3	[5]17.1	[4]30.7	44.4%	17.1	1.8%
1980	848	46.7	5.5%	9.7	8.2	12.8	[4]28.0	45.4%	15.3	1.8%
1979	713	33.5	4.7%	8.4	7.8	10.2	[4]16.6	43.7%	9.4	1.3%
1978	649	29.8	4.6%	19.0	7.0	10.0	13.7	40.5%	8.2	1.3%
[7]1977	666	27.4	4.1%	39.5	6.8	8.5	d4.3	NM	d0.9	NM

Balance Sheet Data (Million $)

Feb. 28	Cash	Current Assets	Current Liab.	Current Ratio	Total Assets	Ret. on Assets	Long Term Debt	Common Equity	Total Cap.	% LT Debt of Cap.	Ret. on Equity
1986	0.14	107	77	1.4	187	1.7%	59	45	108	54.8%	6.1%
1985	4.51	212	140	1.5	303	5.3%	61	96	161	38.1%	15.9%
1984	2.29	188	125	1.5	287	2.2%	53	102	159	33.6%	7.4%
1983	5.13	223	148	1.5	382	1.4%	117	98	230	50.9%	5.3%
1982	4.32	225	146	1.5	373	5.4%	117	96	222	52.6%	20.4%
1981	7.05	245	161	1.5	365	5.1%	97	98	198	48.9%	18.6%
1980	7.24	221	127	1.7	308	5.4%	87	86	175	49.6%	19.1%
1979	1.63	173	89	1.9	260	3.7%	86	75	162	52.7%	13.0%
1978	6.68	162	78	2.1	249	3.2%	91	71	163	55.8%	11.7%
1977	6.11	176	101	1.8	255	NM	81	67	148	54.5%	NM

Data as orig. reptd. 1. Excl. disc. opers. 2. Excludes discontinued operations and reflects merger or acquisition. 3. Bef. results of discontinued operations in 1986, 1984. 4. Incl. equity in earns. of nonconsol. subs. 5. Reflects accounting change. NM-Not Meaningful. d-Deficit.

Net Sales (Million $)

Quarter:	1986-7	1985-6	1984-5	1983-4
May	133.5	135.8	235.4	214.9
Aug.	134.6	138.7	245.6	220.3
Nov.	173.5	136.7	240.7	225.1
Feb.		127.1	230.3	221.1
		538.4	952.0	881.4

Sales from continuing operations for the nine months ended November 30, 1986 rose 7.4%, year to year, aided by the inclusion of McKesson since November 1, 1986. Results were hurt by a loss at McKesson, weak industrial activity, and high insurance and environmental expenses. Pretax income fell 32%. After taxes at 51.4%, versus 42.9%, net income declined 42%, to $0.29 a share, from $0.54, which excludes income from discontinued operations of $0.79.

Common Share Earnings ($)

Quarter:	1986-7	1985-6	1984-5	1983-4
May	0.37 0.07	0.07	0.20	0.22
Aug.	0.06	0.22	1.63	0.33
Nov.	0.16	0.25	0.51	0.30
Feb.		0.22	0.50	0.46
	0.11	0.76	2.85	1.33

Dividend Data

Dividends have been paid since 1935.

Amt. of Divd. $	Date Decl.	Ex-divd. Date	Stock of Record	Payment Date
0.05	Jun. 30	Aug. 11	Aug. 15	Sep. 5'86
0.05	Oct. 17	Nov. 7	Nov. 14	Dec. 8'86
0.05	Dec. 5	Feb. 9	Feb. 16	Mar. 9'87
0.05	Apr. 22	May 11	May 17	Jun. 6'87

Next dividend meeting: late Jun. '87.

Finances

In December, 1984 UVX sold $10.5 million of industrial revenue bonds.

Capitalization

Long Term Debt: $103,248,000, incl. $3,770,000 of capitalized leased obligations.

Common Stock: 8,678,889 shs. ($0.33⅓ par). Pakhoed Holding, N.V. owns about 35%. Shareholders of record: 6,137.

Office—1600 Norton Building, Seattle, Wash. 98104. **Tel**—(206) 447-5911. **Chrmn**—J. H. Wiborg. **Pres & CEO**—J. W. Bernard. **Secy**—B. C. Maulding. **Treas**—G. Pruett. **Dirs**—R. E. Engebrecht, M. M. Harris, C. P. Lindley, G. MacLeod, R. D. O'Brien, W. G. Reed, Jr., R. S. Rogers, A. V. Smith, W. K. Street, N. Vorm, J. H. Wiborg, L. Wyatt. **Transfer Agents**—Harris Trust Co., NYC; Seattle-First National Bank, Seattle. **Registrars**—Harris Trust Co., NYC; Bank of California, San Francisco. **Incorporated** in Delaware in 1966.

UNIVAR CORP. NYSE-UVX

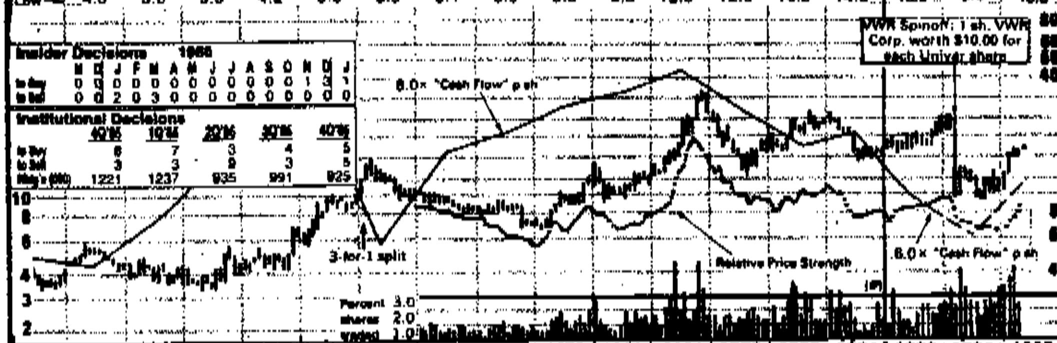
RECENT PRICE 18 | P/E RATIO NMF (Trailing: 36.9 / Median: 9.5) | RELATIVE P/E RATIO NMF | DIV'D YLD 1.1% | VALUE LINE 1415

High 6.0	6.0	6.8	7.3	10.4	15.8	11.0	9.8	12.6	15.0	38.0	27.8	27.6	27.0	26.5	25.5	18.5
Low 4.3	3.6	3.3	4.2	5.6	9.5	8.1	6.9	6.8	9.3	12.6	12.6	16.5	14.8	16.2	9.4	10.8

TIMELINESS (Relative Price Performance Next 12 Mos.) —

SAFETY (Scale: 1 Highest to 5 Lowest) 4 Below Average

BETA NMF (1.00 = Market)



Insider Decisions 1986

	M	D	J	F	M	A	M	J	J	A	S	O	N	D	J
to Buy	0	0	0	0	0	0	0	0	0	0	0	0	1	3	1
to Sell	0	0	2	0	3	0	0	0	0	0	0	0	0	0	0

Institutional Decisions

	4Q'85	1Q'86	2Q'86	3Q'86	4Q'86
to Buy	6	7	3	4	5
to Sell	3	3	9	3	5
Hld's(000)	1221	1237	935	991	925

1988	1989	1990	1991

May 22, 1987 Value Line

1989-91 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	30	(+ 65%)	15%
Low	20	(− 10%)	5%

1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	© VALUE LINE, INC.	89-91E
32.53	39.25	44.48	59.79	82.57	83.65	96.57	96.83	109.02	131.44	160.45	171.81	167.46	159.13	171.71	95.80	81.60	126.40	Sales per sh (A)	153.00
.65	.58	.95	1.92	3.11	2.68	.73	2.11	2.55	3.58	4.08	5.05	3.07	2.28	2.51	1.82	1.85	1.95	"Cash Flow" per sh	3.50
.38	.13	.38	1.10	2.26	2.13	d.13	1.20	1.40	2.35	2.85	3.21	.92	1.33	1.43	.76	.30	.65	Earnings per sh (B)	1.85
.24	.22	.16	.19	.24	.46	.58	.56	.58	.66	.66	.68	.68	.68	.68	.20	.20	.20	Div'ds Decl'd per sh (C)	.60
.68	2.65	.55	1.13	1.49	2.19	3.06	2.22	1.08	1.47	8.06	8.84	4.27	2.25	3.01	1.88	.80	1.35	Cap'l Spending per sh	2.00
5.61	5.51	5.73	6.85	9.08	10.65	9.70	10.53	11.48	13.26	15.26	17.34	17.58	18.41	17.29	8.02	10.35	10.65	Book Value per sh (D)	14.20
6.81	6.79	6.84	6.67	6.32	8.70	6.89	6.79	6.54	6.45	6.45	5.55	6.66	5.54	5.54	5.61	8.70	8.80	Common Shs Outst'g (E)	9.15
10.9	38.7	10.9	3.8	2.4	4.4	--	7.7	5.9	4.3	4.4	7.2	19.3	17.0	13.0	27.5	39.5		Avg Ann'l P/E Ratio	14.0
.78	2.47	.75	.37	.34	.59	--	1.01	.80	.62	.68	.87	2.13	1.44	1.19	3.24	2.65		Relative P/E Ratio	1.15
5.8%	4.4%	3.8%	4.5%	4.6%	4.9%	4.8%	6.1%	6.8%	5.5%	5.6%	3.0%	3.8%	3.0%	3.7%	1.0%	1.7%		Avg Ann'l Div'd Yield	2.3%
						665.7	649.2	713.1	847.6	970.2	954.2	930.1	881.4	952.0	538.4	710	1125	Sales ($mill) (A)	1400
						3.8%	4.3%	4.6%	5.5%	5.2%	4.9%	3.7%	2.8%	2.7%	3.1%	2.5%	2.5%	Operating Margin	3.5%
						5.9	8.2	7.3	7.8	8.3	9.6	11.9	5.3	6.0	4.8	7.0	12.0	Depreciation ($mill)	15.0
						d.9	8.2	9.4	15.3	17.1	18.5	5.1	7.4	7.9	4.3	2.0	5.5	Net Profit ($mill)	17.0
						34.3%	40.5%	43.8%	46.3%	44.4%	24.1%	--	39.9%	38.0%	35.5%	50.0%	40.0%	Income Tax Rate	38.0%
						NMF	1.3%	1.3%	1.8%	1.8%	1.9%	.6%	.8%	.8%	.8%	.3%	.5%	Net Profit Margin	1.2%
						77.4	83.9	84.1	93.9	84.1	78.9	75.8	62.9	72.5	30.8	55.0	70.0	Working Cap'l ($mill)	100
						80.6	91.1	85.5	86.5	96.9	116.7	117.0	53.5	61.3	69.4	105	100	Long-Term Debt ($mill)	85.0
						66.8	71.5	75.1	86.5	98.3	86.3	97.7	102.0	95.9	45.0	90.0	95.0	Net Worth ($mill)	130
						1.4%	6.9%	7.8%	10.7%	10.6%	10.9%	4.5%	6.7%	7.0%	6.4%	2.5%	5.0%	% Earned Total Cap'l	9.0%
						NMF	11.4%	12.5%	17.9%	17.4%	19.2%	5.3%	7.2%	8.3%	9.6%	2.0%	6.0%	% Earned Net Worth	13.0%
						NMF	6.1%	7.5%	13.6%	13.0%	15.1%	1.4%	3.6%	4.3%	7.1%	.5%	4.0%	% Retained to Comm Eq	9.0%
						NMF	46%	40%	24%	25%	21%	74%	51%	48%	26%	73%	32%	% All Div'ds to Net Prof	32%

CAPITAL STRUCTURE as of 11/30/86
Total Debt $111.9 mill. **Due in 5 Yrs** $21.0 mill.
LT Debt $103.3 mill. **LT Interest** $8.5 mill.
Incl. $15.0 mill. capitalized leases.
(LT interest earned: 2.1x; total interest coverage: 2.0x)
(55% of Cap'l)

Leases, Uncapitalized Annual rentals $2.1 mill.

Pension Liability None in '85 vs. None in '84

Pfd Stock None

Common Stock 8,678,889 shs. (45% of Cap'l) as of 12/31/86

CURRENT POSITION ($MILL.)	1984	1985	11/30/86
Cash Assets	4.5	.1	--
Receivables	120.6	67.7	104.6
Inventory(LIFO)	77.1	39.2	75.4
Other	10.0	.5	14.1
Current Assets	212.2	107.5	194.1
Accts Payable	95.3	57.9	101.7
Debt Due	22.2	6.5	8.6
Other	22.2	12.3	32.2
Current Liab.	139.7	76.7	142.5

ANNUAL RATES of change (per sh)	Past 10 Yrs	Past 5 Yrs	Est'd '83-'85 to '89-'91
Sales	10.5%	8.0%	NMF
"Cash Flow"	3.0%	−1.0%	NMF
Earnings	—	−6.0%	NMF
Dividends	13.0%	4.0%	NMF
Book Value	9.5%	8.5%	NMF

Fiscal Year Begins	QUARTERLY SALES ($ mill.) (A) May 31	Aug. 31	Nov. 30	Feb. 28	Full Fiscal Year
1983	214.9	220.3	225.1	221.1	881.4
1984	235.4	245.6	240.6	230.4	952.0
1985	135.8	138.7	136.7	177.7	538.4
1986	133.5	134.5	173.5	268.5	710
1987	265	276	270	315	1125

Fiscal Year Begins	EARNINGS PER SHARE (A) May 31	Aug. 31	Nov. 30	Feb. 28	Full Fiscal Year
1983	.22	.33	.30	.48	1.33
1984	.20	.40	.39	.44	1.43
1985	.07	.22	.25	.22	.76
1986	.06	.06	.16	.02	.30
1987	.10	.20	.25	.10	.65

Cal-endar	QUARTERLY DIVIDENDS PAID (C) Mar. 31	June 30	Sept. 30	Dec. 31	Full Year
1983	.17	.17	.17	.17	.68
1984	.17	.17	.17	.17	.68
1985	.17	.20	.20	.20	.77
1986	.05	.05	.05	.05	.20
1987	.05	.05			

BUSINESS: Univar Corp. is engaged in indus. merchandising. Van Waters & Rogers (U.S. & Canada) distributes industrial chemicals. Spun off VWR Scientific (distributes graphic & laboratory supplies), VW&R Home Furnishings (distributes supplies to furniture manufrs.) and Acacia (manufrs. electronic components) in 1986. Purchased Chemical Distribution group from McKesson in 11/86. Est'd wage costs: 8% of sales. '85 deprec. rate: 6.1%. Est'd plant age: 4 yrs. Has about 1,479 empls., 6,137 shrhldrs. Pakhoed Holding owns about 34% of stock. Insiders own about 33%. Chrmn.: J.H. Wiborg. Pres. & C.E.O.: James W. Bernard. Inc.: DE. Add.: 1600 Norton Bldg., Seattle, WA 98104. Tel.: 206-447-5911.

Demand for industrial chemicals seems to be on the rise. . . Although Univar still can't count on a buildup of orders from the slumping agricultural and timber industries, the petroleum, mining, and electronic industries, which are undergoing limited recoveries, are increasing their use of chemicals and chemical products.

. . . but earnings remain under pressure as costs associated with Univar's acquisition of the chemical division of McKesson continue to squeeze margins. These expenses include severance payments for dismissed or retiring workers, costs related to the consolidation of excess office space and the relocation of staff, the streamlining of plant facilities, and remedial efforts to clean up McKesson dump sites to comply with strict EPA regulations. Assuming these costs continue throughout fiscal 1987 (which began April 1st), we've slashed 25¢ off our earnings estimate for the year. These shares cannot as yet be assigned Value Line's Timeliness rank because of their short trading history. Nonetheless, the stock as a one year commitment, seems to be fully valued relative to the overall market.

Prospects for the pull to 1989-91 are unexciting. Meaningful recoveries in the agricultural, mining, and petroleum industries—all of which are major users of industrial chemicals—are not expected to take place within the time frame considered in this report. Moreover, competitive bidding for contracts (a procedure now required of chemical distributors by several major customers) will likely prevent Univar from reestablishing the operating margins the company once enjoyed from 1978-82 (although the McKesson acquisition will allow it to spread its hefty environmental costs over a broader business base). Thus, although we think these shares will continue to trade at a premium to the market, annual earnings gains to 1989-91 may not be sufficient to effect even average share price appreciation to that time.

Terrence K. Dwyer/Gerald Holtzman

CASH POSITION	5-Year Av'g	11/30/86
Current Assets to Current Liabilities:	152%	136%
Cash & Equiv's to Current Liab'ties:	3%	NMF
Working Capital to Sales:	8%	9%

(A) Fiscal year ends last day in Feb. of following year. (B) Based on average shares outstanding. Excl. nonrecurring gain: '83, 33¢; '84, $1.42, '85, 1¢. Next earnings report due late May. (C) Next dividend meeting about June 29. Goes ex about Aug. 10. Dividend payment: Mar. 9, June 6, Sept. 4, Dec. 7. (D) Incl. intangibles. In '85: $5.5 mill., 9¢/sh. (E) In millions, adjusted for stock splits. (F) All data after 1984 excl. VWR Corp. Data from '86 includes McKesson Chemical acqu.

Company's Financial Strength	C++
Stock's Price Stability	NMF
Price Growth Persistence	NMF
Earnings Predictability	NMF

BR001171

July 6, 1987

Univar
CORPORATION

DEAR SHAREHOLDER:

You are cordially invited to attend the Univar Corporation Annual Meeting of Shareholders to be held at Rainier Bank Tower, 12th Floor Auditorium, Rainier Square, Fifth Avenue & University Street, Seattle, Washington, on August 21, 1987 at 11:00 a.m. At the Meeting, we will report on the operations of the Company and respond to any questions you may have.

Recently the General Corporation Law of the State of Delaware was amended to allow Delaware corporations such as the Company to adopt amendments to their certificates of incorporation to limit the liability of directors under certain circumstances. The enclosed Proxy Statement proposes an amendment to the Certificate of Incorporation of the Company to add such a provision. The Company believes that adoption of the proposed amendment to the Certificate of Incorporation of the Company is important to retain and attract qualified directors.

Your Board of Directors recommends that you vote to approve the proposed amendment to the Certificate of Incorporation, re-elect four directors whose terms of office will expire this year and ratify the selection of Arthur Andersen & Co. as our auditors. These matters are described more fully in the formal Notice of Annual Meeting and Proxy Statement which appear on the following pages.

YOUR VOTE IS VERY IMPORTANT. Whether or not you plan to attend the Meeting, it is important that your shares be represented. Therefore, I urge you to sign, date and promptly return the enclosed proxy in the enclosed postage paid envelope. If you attend the Meeting, you will, of course, have the privilege of voting in person.

We look forward to greeting you personally, and on behalf of the Board of Directors and management of the Company, I would like to express our appreciation for your interest in Univar Corporation.

Sincerely,

J W Bernard
James W. Bernard
President and Chief Executive Officer

James H. Wiborg
James H. Wiborg
Chairman and Chief Strategist

Seattle, Washington
July 6, 1987

Univar
CORPORATION

Notice of Annual Meeting of Shareholders

TO THE SHAREHOLDERS:

The annual meeting of the shareholders of Univar Corporation will be held in the auditorium, 12th floor, Rainier Bank Tower, Fifth Avenue and University Street, Seattle, Washington on August 21, 1987 at 11:00 a.m., for the following purposes:

1. To elect four directors.

2. To amend the Certificate of Incorporation of the Corporation to limit the liability of its directors in certain circumstances, pursuant to Delaware Corporation Law.

3. To ratify the selection of Arthur Andersen & Co. as independent public accountants for the fiscal year ending February 29, 1988.

4. To transact such other business as may properly come before the meeting.

Only shareholders of record at the close of business on July 1, 1987 are entitled to notice of, and to vote at, this meeting.

By Order of The Board of Directors
Barry C. Maulding
Corporate Secretary

Each shareholder is urged to sign and return promptly the accompanying proxy in the enclosed envelope to which no postage need be affixed if mailed in the United States.

Univar
CORPORATION

1600 NORTON BUILDING
SEATTLE, WASHINGTON 98104

Proxy Statement for Annual Meeting of Shareholders

To be held August 21, 1987

This proxy statement is furnished in connection with the solicitation of proxies on behalf of the Board of Directors of Univar Corporation (herein called the "Corporation") to be voted at the annual meeting of the shareholders of the Corporation to be held at 11:00 a.m. on August 21, 1987 in the auditorium, 12th floor, Rainier Bank Tower, Fifth Avenue and University Street, Seattle, Washington, for the purposes set forth in the accompanying Notice of Annual Meeting of Shareholders. Shareholders who execute proxies retain the right to revoke them at any time before they are voted. A proxy may be revoked by written notice to the Corporate Secretary of the Corporation at 1600 Norton Building, Seattle, Washington 98104; by submission of a proxy with a later date; or by a request in person to return the executed proxy. The cost of solicitation of proxies will be borne by the Corporation.

Shareholders of record at the close of business on July 1, 1987 will be entitled to vote at the meeting on the basis of one vote for each share of common stock held. On July 1, 1987 there were 8,682,283 shares of common stock outstanding.

ELECTION OF DIRECTORS

Your Corporation has a classified board of thirteen directors. Four or five directors are to be elected each year for a term of three years. Your Board of Directors has proposed that the four nominees listed below be elected this year for a term to expire in 1990. The Board of Directors recommends a vote FOR their election, and unless you indicate otherwise, your signed proxy will be voted for the election of these nominees.

The Board of Directors expects that each of the nominees will be available for election, but if any of them is not a candidate at the time the election occurs, it is intended that such proxy will be voted for the election of another nominee to be designated by the Nominating Committee of the Board of Directors of the Corporation. Except where otherwise indicated, the nominees' beneficial ownership of the Corporation's common stock consists of sole voting power and sole investment power.

DIRECTORS TO BE ELECTED

RICHARD E. ENGEBRECHT

Age: 60

Term to expire 1990

A Director of the Corporation since 1984

Business experience of last five years: President and Chief Executive Officer, VWR Corporation - 1986 to date; President and Chief Operating Officer, Univar Corporation – 1983 to 1986; Executive Vice President, Univar Corporation - 1982 to 1983; Senior Vice President, Univar Corporation - 1971 to 1982.

Directorships: PENWEST, LTD.
VWR Corporation
Eldec Corporation
Puget Sound Bancorp.

Common shares owned beneficially on June 1, 1987: 50,200

Percent of outstanding common stock: .58%

MARK W. HOOPER

Age: 40

Term to expire 1990

A Director of the Corporation since 1986

Business experience of last five years: President, Pakhoed Development Inc. – 1984 to date; Vice President, Pakhoed Corporation 1978 to present.

Common shares owned beneficially on June 1, 1987: 0

Percent of outstanding common stock: 0%

Mr. Hooper is serving as a designee of Pakhoed Holding N.V. See "Securities Ownership" and "Agreement with Pakhoed Holding N.V."

ROBERT S. ROGERS

Age: 63

Term to expire 1990

A Director of the Corporation since 1970

Family relationships: Brother of N. Stewart Rogers, Senior Vice President-Finance and brother-in-law of James H. Wiborg, Chairman and Chief Strategist.

Business experience of last five years: President, Lands-West, Inc. - 1978 to date.

Directorships: VWR Corporation

Common shares owned beneficially on June 1, 1987: 128,704+

Percent of outstanding common stock: 1.48%

+Mr. Rogers disclaims beneficial ownership of 17,514 shares owned by his spouse, which are included in his total above as required by SEC regulations.

LOWRY WYATT

Age: 69

Term to expire 1990

A Director of the Corporation since 1975

Business experience of last five years: Retired. Consultant to Weyerhaeuser Company - 1979 to date.

Directorships: American Savings Bank
PENWEST, LTD.
VWR Corporation
UI Group Inc.
First Interstate Group of Washington
Snavely Forest Products, Co.

Common shares owned beneficially on June 1, 1987: 6,000

Percent of outstanding common stock: .07%

DIRECTORS WHOSE TERM CONTINUES

JAMES W. BERNARD

Age: 50

Term to expire 1988

A Director of the Corporation since 1986

Business experience of last five years: President and Chief Executive Officer, Univar Corporation - September 1, 1986 to date; President and Chief Operating Officer, Univar Corporation - 1986 through August 31, 1986; Executive Vice President, Univar Corporation - 1983 to 1986; Senior Vice President, Univar Corporation - 1982 to 1983; President, VWR Scientific Inc. - 1974 to 1983.

Common shares owned beneficially on June 1, 1986: 82,810+

Percent of outstanding common stock: .95%

+Includes 40,000 shares which were awarded to Mr. Bernard under the Long-Term Incentive Stock Plan. See "Long-Term Incentive Stock Plan." Mr. Bernard disclaims beneficial ownership of 41,310 shares owned by his spouse and children, which are included in his total above as required by SEC regulations.

H. P. H. CRIJNS

Age: 56

Term to expire 1989

A Director of the Corporation since 1986

Business experience of last five years: Chairman of the Managing Board, Pakhoed Holding N.V. - 1978 to date.

Common shares owned beneficially on June 1, 1987: 0

Percent of outstanding common stock: 0%

Mr. Crijns is serving as a designee of Pakhoed Holding N.V. See "Securities Ownership" and "Agreements with Pakhoed Holding N.V."

M. M. HARRIS

Age: 70

Term to expire 1989

A Director of the Corporation since 1960

Business experience of last five years: Retired; Vice Chairman of the Board, Univar Corporation - 1970 to date.

Directorships: Deepwater, Inc.
VWR Corporation

Common shares owned beneficially on June 1, 1987: 98,767

Percent of outstanding common stock: 1.14%

CURTIS P. LINDLEY

Age: 62

Term to expire 1989

A Director of the Corporation since 1984

Business experience of last five years: Chairman, PENWEST, LTD. - 1984 to date; Chairman & Chief Executive Officer PENWEST, LTD. - 1984 to 1985; Executive Vice President, Univar Corporation – 1982 to 1984.

Directorships: PENWEST, LTD.
VWR Corporation

Common shares owned beneficially on June 1, 1987: 107,420+

Percent of outstanding common stock: 1.24%

+Mr. Lindley disclaims beneficial ownership of 2,186 shares owned by his spouse, which are included in his total above as required by SEC regulations.

ANDREW V. SMITH

Age: 62

Term to expire 1989

A Director of the Corporation since 1982

Business experience of last five years: President, Pacific Northwest Bell - 1978 to date.

Directorships: Airborne Express Corporation
Cascade Natural Gas Co.
ISC Systems Corp.
Pacific Northwest Bell
U.S. Bancorp (Portland)
U.S. National Bank of Oregon
Unigard Insurance Group
VWR Corporation
Washington Mutual Savings Bank

Common shares owned beneficially on June 1, 1987: 4,000

Percent of outstanding common stock: .05%

WILLIAM K. STREET

Age: 57

Term to expire 1988

A Director of the Corporation since 1975

Business experience of last five years: President, The Ostrom Company-1964 to date.

Directorships: PENWEST, LTD.
VWR Corporation

Common shares owned beneficially on June 1, 1987: 10,009

Percent of outstanding common stock: .12%

The Ostrom Company, growers and distributors of mushrooms, has filed for protection under Chapter 11 of the Federal Bankruptcy Code. Management continues to operate this business as a "debtor-in-possession."

NICO VAN DER VORM

Age: 59

Term to expire 1989

A Director of the Corporation since February 1987

Business experience of last five years: Chairman of the Executive Board, Holland America Line N.V.

Common shares owned beneficially on June 1, 1987: 0

Percent of outstanding common stock: 0%

Mr. van der Vorm is serving as a designee of Pakhoed Holding N.V. See "Securities Ownership" and "Agreements with Pakhoed Holding N.V."

G. VERHAGEN

Age: 57

Term to expire 1988

A Director of the Corporation since 1986

Business experience of last five years: Member of the Managing Board, Pakhoed Holding N.V.

Common shares owned beneficially on June 1, 1987: 0

Percent of outstanding common stock: 0%

Mr. Verhagen is serving as a designee of Pakhoed Holding N.V. See "Securities Ownership" and "Agreements with Pakhoed Holding N.V."

JAMES H. WIBORG

Age: 62

Term to expire 1988

A Director of the Corporation since 1964.

Family relationships: Brother-in-law of Robert S. Rogers, Director, and N. Stewart Rogers, Senior Vice President - Finance.

Business experience of last five years: Chairman and Chief Strategist, Univar Corporation and VWR Corporation - September 1, 1986 to present; Chairman and Chief Executive Officer, Univar Corporation - 1983 to 1986; President and Chief Executive Officer, Univar Corporation - 1966 to 1983.

Directorships: PENWEST, LTD.
Seafirst Corporation
PACCAR Inc.
VWR Corporation

Common shares owed beneficially on June 1, 1987: 216,261

Percent of outstanding common stock: 2.49%

Mr. Wiborg shares voting and investment power for an additional 10,080 shares, but he disclaims any beneficial ownership in these shares.

Mr. Wiborg is a director of the Seattle-First National Bank. During the year, the Corporation has utilized the services of the bank as a depository of funds and in the management of cash. In addition, the Corporation borrows from Seattle-First National Bank on terms and conditions competitive with those obtainable at the time from other comparable banking institutions. During the year the maximum level of indebtedness to Seattle-First National Bank was $28,049,701. It is expected that the Corporation will continue its business relationship with the Bank.

SECURITIES OWNERSHIP

Listed in the following table is the only known beneficial owner as of July 1, 1987 of more than five percent of the Corporation's outstanding common stock. The Corporation knows of no other person or "group," as that term is used in Section 13(d)(3) of the Securities & Exchange Act of 1934, that is the beneficial owner of more than five percent of the Corporation's common stock. Also listed are the number of shares beneficially owned by all directors and officers as a group.

Name and Address of Beneficial Owner/Number of Persons in Group	Amount and Nature of Beneficial Ownership	Percent of Class
Pakhoed Investeringen B.V. c/o Pakhoed Holding N.V. 60-68 Boompjes 3011 XC ROTTERDAM The Netherlands	3,053,000(1)	35%
All Directors and Officers as a Group (21 persons)	4,003,339(2)(3)	46%

(1) Pakhoed Investeringen B.V. is a wholly owned subsidiary of Pakhoed Holding N.V. The shares are subject to a Standstill Agreement and a Shareholder Agreement described below.

BR001179

(2) Includes all shares beneficially owned by directors as described in "Election of Directors" and 3,053,000 shares held by Pakhoed Investeringen B.V. as to which Messrs. Crijns and Verhagen share voting and investment power as Managing Directors of Pakhoed Holding N.V.

(3) Includes 3,159 shares for which certain officers have stock options exercisable within sixty days (see "Stock Option Plan") and 50,131 shares awarded to officers under the Long-Term Incentive Stock Plan (see "Long-Term Incentive Stock Plan").

AGREEMENTS WITH PAKHOED HOLDING N.V.

On September 19, 1986 in connection with the acquisition of certain assets and liabilities of the McKesson Chemical Company ("MCC"), the Corporation entered into various agreements with Pakhoed Holding N.V. and Pakhoed Investeringen B.V. (collectively "Pakhoed") including a Stock Exchange Agreement and a Standstill Agreement. Pakhoed also entered into Shareholders Agreements with Directors Bernard, Engebrecht, Harris, Lindley, Robert S. Rogers, and Wiborg, and with N. Stewart Rogers (an officer of the Corporation) and Nat S. Rogers (the father of Robert S. and N. Stewart Rogers and the father-in-law of James H. Wiborg). These eight shareholders and their spouses are referred to as the "Core Shareholders."

Under the Stock Exchange Agreement the Corporation exchanged 3,053,000 shares of its common stock and $1,000,000 for all of the outstanding common stock of a subsidiary of Pakhoed which purchased MCC. The Corporation also agreed to reimburse Pakhoed for approximately $1,700,000 in fees and expenses in connection with the acquisition of MCC.

The Standstill Agreement provides that Pakhoed will not acquire beneficial ownership of any Voting Securities of the Corporation without the consent of the Corporation if such acquisition would result in Pakhoed owning more than 35% of Common Stock Equivalents of the Corporation. Pakhoed may acquire additional Voting Securities above the 35% limit by making a tender offer for shares of Voting Securities in response to a third-party tender offer for such securities, in which event the percentage limitation will increase to 45% and Pakhoed may retain shares over 45% to the extent the Corporation elects not to repurchase such shares pursuant to its right to do so under the Standstill Agreement. Pakhoed may also acquire shares in excess of the percentage limitation (i) upon receiving approval of five-eighths (5/8) of the directors of the Corporation who are not affiliated with Pakhoed, or (ii) by a 100% tender offer made in response to a third-party's acquisition of 10% or more of Common Stock Equivalents, or if the Core Shareholders increase their aggregate ownership of Common Stock Equivalents by 10% or more.

The Standstill Agreement also provides that Pakhoed will not (without prior written approval of the Board, including the concurrence of a majority of directors not affiliated with Pakhoed) (i) for a period of five years solicit proxies or participate in solicitation of proxies contesting any recommendation of the Board; (ii) deposit any Voting Securities in a voting trust or subject them to a voting agreement except as required by Netherlands law or to a trust or agreement between Pakhoed and its affiliates; (iii) join any group for the purpose of acquiring, holding or disposing of voting Securities within the meaning of Section 13(d) of the Securities Exchange Act of 1934; (iv) induce any other person to initiate a tender offer for any securities of the Corporation, or to effect any change of control of the Corporation or take any action for the purpose of convening a stockholders' meeting; or (v) acquire more than 1% of any class of securities of any entity that is publicly disclosed to be the beneficial owner of 5% or more of the Voting Securities.

Pursuant to the Standstill Agreement, the Corporation has increased the size of its Board from 9 to 13 directors, and appointed Messrs. Hooper, Crijns, van der Vorm and Verhagen to the four new seats. The Board will be reduced to 12 seats following the first retirement or resignation of a director. Subject to certain limitations, the Corporation thereafter will cause to be nominated for election as directors representatives designated by Pakhoed so as to provide Pakhoed with representation on the Board proportionate to its stock ownership. Pakhoed will vote its shares so as to afford the Corporation's other shareholders with proportionate representation also. Pakhoed will be entitled to representation on any committee of the Board at its request.

The Shareholder Agreements provide that Core Shareholders will vote their shares in favor of Pakhoed's representatives, as described in the preceding paragraph, in consideration for the right of the Core Shareholders to put their shares to Pakhoed after a tender offer by Pakhoed made in accordance with and satisfying the requirements of the Standstill Agreement.

REMUNERATION OF DIRECTORS

Non-employee directors of the Corporation were compensated during the last fiscal year as follows:

(a)	Annual retainer as a Director	$7,500
(b)	Annual retainer as a member of Executive Committee	2,000
(c)	Annual retainer as Chairman of each standing committee	2,000
(d)	Fee for each meeting of the Board of Directors attended	700
(e)	Fee for each meeting of the Board of Directors attended when two days of travel required	1,000
(f)	Fee for each committee meeting attended	350
(g)	Reimbursement for all reasonable expenses incurred in attending board and/or committee meetings	

Mr. Wiborg, as Chairman of the Board and Chief Strategist, has a Consulting Services Agreement which provides for a base retainer of $100,000 and a variable retainer or bonus ranging from 0% to 100% of the base retainer which is to be awarded based on his achievement of predetermined objectives established by the Compensation Committee. The effective term of this arrangement is from September 1, 1986 through August 31, 1989, and includes provisions for acceleration of any unpaid base retainer and annual target bonuses of $65,000 in the event of certain transactions which might result in a change of control. Total base and variable retainer amounts paid to Mr. Wiborg during last fiscal year are included in the Executive Compensation table which also includes compensation for six months during which Mr. Wiborg served as Chief Executive Officer.

NUMBER OF MEETINGS

There were eight meetings of the Board of Directors held during the last fiscal year. All directors attended 75% or more of the aggregate of board meetings and meetings of committees on which they served.

COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors has standing Audit, Compensation, Executive, Nominating, Pension and Public Policy Committees:

AUDIT COMMITTEE

M. M. Harris, Chairman
Curtis P. Lindley
Andrew V. Smith
William K. Street
G. Verhagen

Three meetings were held during the last fiscal year.

Functions:

1. Recommend selection or termination of independent public accountants to the Board of Directors.

2. Review scope of the audit to be performed by the independent public accountants and the audit fee.

3. Review and/or recommend accounting policies to the Board of Directors.

4. Review reports of independent public accountants and internal auditors as to the adequacy of the Corporation's accounting system, controls and other matters.

5. Review scope and specifications of the internal audit program.

6. Review areas of possible conflicts of interest and sensitive payments.

COMPENSATION COMMITTEE

Lowry Wyatt, Chairman
James W. Bernard
Robert S. Rogers
William K. Street
G. Verhagen

Five meetings were held during the last fiscal year.

Functions:

1. Recommend compensation of corporate officers.

2. Establish bonus criteria.

3. Review annually the operation of all compensation practices and salary administration procedures.

4. Consult with the Pension Plan Committee regarding the effects of trends in compensation on pension costs.

5. Recommend benefit levels in the Corporation's retirement program.

6. Recommend Directors' fees.

EXECUTIVE COMMITTEE

Lowry Wyatt, Chairman
James W. Bernard
H.P.H. Crijns
Richard E. Engebrecht
Nico van der Vorm
James H. Wiborg

Five meetings were held during the last fiscal year.

Functions:

To exercise all the power of the Board of Directors between meetings of the Board of Directors, except the Executive Committee shall not have power to:

1. Amend or repeal any section of the bylaws or the Restated Certificate of Incorporation.

2. Elect or remove any officer of the Corporation.

3. Make recommendations as to the selection of the Chairman of the Board, the Vice Chairman of the Board or the President.

4. Rescind or modify beyond $600,000 any resolution adopted by the Board of Directors.

5. Authorize original issue of capital stock.

6. Authorize capital investments or acquisitions or dispositions of property in excess of $600,000.

7. Approve annual capital or operating budgets.

8. Declare any dividends.

9. Fix compensation of officers, directors, or employees.

The Board of Directors may specifically authorize the Executive Committee to act with respect to any of the foregoing matters.

NOMINATING COMMITTEE

James H. Wiborg, Chairman
Richard E. Engebrecht
Andrew V. Smith

One meeting was held during the last fiscal year.

Functions:

1. Receive, review and maintain files of individuals qualified to be recommended as nominees for election as directors.

2. Review as appropriate the capability of each incumbent director to continue to serve as director.

3. Recommend a list of individuals to the Board of Directors for nomination for election to the Board of Directors at the annual meeting of shareholders.

4. Recommend individuals for election to the Board of Directors as replacement directors may be required.

5. Recommend individuals for appointment as new committees may be created or as replacement committee members may be required.

There is at present no established procedure for submission of nominations by shareholders. Article X of the Restated Certificate of Incorporation, however, would allow only Disinterested Directors or persons beneficially owning shares of Voting Stock having a market price of $250,000 or more, when cumulative voting was in effect as a result of the existence of a person or group which beneficially owns 40% or more of the outstanding Common Stock, to nominate one or more candidates for election as a director and to have information relating to such nominees included in the Corporation's proxy statement.

PENSION COMMITTEE

Robert S. Rogers, Chairman
Curtis P. Lindley
M. M. Harris
Lowry Wyatt

One meeting was held during the last fiscal year.

Functions:

1. Direct the investment of the funds of the Univar Corporation Retirement Plan.

2. Review and make recommendations to the Board of Directors in respect to the performance of any third parties responsible for the administration and for the investment of the funds of such plan.

3. Review and make recommendations to the Board of Directors in respect to any amendments proposed for such plan.

4. Review the annual reports made for such plan and establish and administer any additional system for periodic reporting as the Committee may deem advisable.

PUBLIC POLICY COMMITTEE

James W. Bernard, Chairman
Mark. W. Hooper
M. M. Harris
Curtis P. Lindley

Three meetings were held during the last fiscal year.

Functions:

1. Review policies of the operating units and recommend further development or modification of said policies to the Board with respect to Company health, safety, environmental, insurance and real estate affairs; and audit, or cause to be audited, the activities in these areas to insure they are carried out in a manner upholding its responsibility to act as a good corporate citizen in controlling risks to the health and safety of its employees, customers, the public and to the environment.

EXECUTIVE CASH COMPENSATION

Cash compensation paid by the Corporation during the fiscal year ended February 28, 1987 to each of the five most highly compensated executive officers, and to all executive officers as a group, is as follows:

Name of Individual or Number In Group	Capacities In Which Served	Salary	Bonuses*	Total
James H. Wiborg	Chairman and Chief Strategist; Chairman and Chief Executive Officer	$ 145,240	$ 85,254	$ 230,494
James W. Bernard	President and Chief Executive Officer; President and Chief Operating Officer	188,333	125,786	314,119
N. Stewart Rogers	Senior Vice President-Finance	163,385	55,757	219,142
Robert A. Steinseifer	Vice President; President Van Waters & Rogers	141,154	58,190	199,344
Albert C. McNeight	Vice President; President Van Waters & Rogers Ltd.	78,750	39,147	117,897
All 11 executive officers as a group		$1,083,200	$460,907	$1,544,107

*Includes awards accrued for the fiscal year ended February 28, 1987, but does not include any bonuses for the prior fiscal year.

Plans, pursuent to which cash or non-cash compensation was paid or distributed during the last fiscal year or is proposed to be paid or distributed in the future to the individuals named in the table "Executive Cash Compensation" and as a group, are described in the following pages as:

Executive Stock Purchase Plan
Defined Benefit Retirement Plan
Employee Stock Purchase Plan
Management Bonus Plan
UniSaver Tax Savings Investment Plan
Stock Option Plan
Long-Term Incentive Stock Plan

EXECUTIVE STOCK PURCHASE PLAN

The Executive Stock Purchase Plan provided for the purchase of Univar Corporation common stock by key management executives at the market price on the date of execution of a purchase contract payable over ten years with interest. Each purchase contract is secured by a pledge of the stock and with full recourse against the executive purchaser. The Board of Directors adopted the Plan in October 1979. The Plan was ratified by the shareholders at the 1980 annual meeting. The plan does not set any specific limitations on the annual or aggregate purchases of shares or the interest rate. The number of shares offered and the interest rate were determined by the Compensation Committee in 1979 and 1984, the two occasions when shares have been sold to participants.

The following executives owed the Corporation in excess of $60,000 during the last fiscal year as a result of stock purchases made pursuant to the Executive Stock Purchase Plan.

With Interest at Six Percent Per Annum	Unpaid Balance June 1, 1987	Highest Unpaid Balance During Fiscal Year Ended February 28,1987
James H. Wiborg	$139,799	$ 233,493
Curtis P. Lindley*	85,795	140,096
Richard E. Engebrecht*	83,880	140,096
N. Stewart Rogers	72,696	123,129
James W. Bernard	55,920	93,397
Robert A. Steinseifer	52,988	65,378
T. Frank Rawlinson*	0	70,048
Total	$491,078	$ 865,637

With Interest at Nine Percent Per Annum	Unpaid Balance June 1, 1987	Highest Unpaid Balance During Fiscal Year Ended February 28, 1987
Jerrold B. Harris*	$136,990	$ 298,920
Robert A Steinseifer	79,912	89,676
Allen W. Puckett*	65,139	80,361
Patsy R. Turnipseed*	65,135	74,730
Bevan Cates	63,065	80,361
Terrance H. Irvine	63,065	74,730
Guenter Zimmer	0	75,288
Eivind G. Lange*	0	104,622
Total	$473,306	$ 878,688
Grand Total	$964,384	$1,744,325

*Former Officer

DEFINED BENEFIT RETIREMENT PLAN

The table below shows the estimated annual benefits payable on retirement under the Univar Corporation Retirement Plan ("Plan") to persons in specified remuneration and years-of-service classifications. The retirement benefits shown are based upon retirement at age 65 and the payments of a single-life annuity to the employee using the level of Social Security benefits currently in effect to compute the offset for such benefits under the Plan.

Highest average annual earnings during any consecutive sixty months of employment	Years of Service 10	15	20	25
$100,000	$18,106	$ 27,159	$ 36,213	$ 45,266
150,000	28,106	42,159	56,213	70,266
200,000	38,106	57,159	76,213	95,266
250,000	48,106	72,159	96,213	120,266
300,000	58,106	87,159	116,213	145,266
350,000	68,106	102,159	136,213	170,266
400,000	78,106	117,159	156,213	195,266
450,000	88,106	132,159	176,213	220,266

With certain exceptions, Section 415 of the Internal Revenue Code currently limits pensions which may be paid under plans qualified under the Internal Revenue Code to an annual benefit of $90,000. The Board of Directors, upon the recommendation of the Compensation Committee, has authorized the establishment of supplemental benefits for senior officers to whom the Section 415 limit applies, or will apply in the future, so that these senior officers will obtain retirement benefits comparable to other retirement plan participants not impacted by the Section 415 limit. The above table sets forth the total estimated benefit payable to participants.

Compensation of executive officers covered by the Plan would include salaries and bonuses as reported in the Compensation Table. All persons named in the Compensation Table have in excess of twenty-five years of service with the Corporation. No additional retirement benefits accrue after twenty-five years of service.

Compensation of all employees covered by the Plan would include salaries, commissions and bonuses. All regular, full-time employees not members of a collective bargaining unit (except for bargaining units participating in all Univar benefits) are eligible to participate in the Plan.

EMPLOYEE STOCK PURCHASE PLAN

The Employee Stock Purchase Plan, approved by the Board in 1972, allows all employees of the Corporation who have completed one year of employment and who have attained the age of majority to authorize a payroll deduction, from a minimum of $15 per month to a maximum of 10% of base earnings, to be applied towards the purchase of the Corporation's common stock. Each month the total payroll deductions of all participants, plus a contribution by the Corporation equal to 20% of each participant's contribution, are delivered to Merrill Lynch, Pierce, Fenner & Smith Inc. who, as soon as practicable, purchases on the New York or Pacific Stock Exchanges, as agent for the participants, as many shares of the Corporation's common stock as such funds will permit. The shares purchased are allocated to each participant in proportion to his deduction. Each participant has full dividend and voting rights, and may request the issuance of a stock certificate in his name at any time. Dividends are reinvested in common stock of the Corporation. Participants receive quarterly statements from Merrill Lynch. Employees may terminate their participation upon 30 days' notice.

Cash contributions by the Corporation on behalf of executive officers for the last fiscal year are included in the bonus column of the Executive Cash Compensation table.

MANAGEMENT BONUS PLAN

The Management Bonus Plan (the "Bonus Plan"), administered by the Compensation Committee of the Board, provides that the Committee may authorize annual cash or deferred awards to full-time salaried management employees of the Corporation or its subsidiaries. At the beginning of each year a target bonus fund is calculated according to guidelines set out in the Bonus Plan and the President of each subsidiary recommends a list of participants. The list of participants is subject to approval by the President of the Corporation, the Committee and the Board. Payment of bonuses is based on attainment of target profit/capital ratios set out by the Bonus Plan.

Individual bonus awards are determined by salary grade and are subject to an adjustment by a judgment of individual performance. No bonus can exceed 100% of a participant's base salary for the year. Bonuses are paid in cash unless the participant, prior to the beginning of the year, requests deferral of payment for up to a maximum of ten years after separation of service. The committee has sole discretion to approve deferrals. Amounts awarded for the last fiscal year to Executive Officers are set forth in the Executive Cash Compensation table.

UNISAVER TAX SAVING INVESTMENT PLAN

The UniSaver Tax Savings Investment Plan (the "Investment Plan"), approved by the Board in 1984, went into effect on July 1, 1984 and qualifies as a cash or deferred salary arrangement under Section 401(k) of the Internal Revenue Code. Employees are eligible to participate in the Investment Plan if they have been employed for twelve months and are not members of a collective bargaining unit (except for bargaining units participating in all Univar benefits).

Under the Investment Plan, participants may defer up to 12% of their pretax salary (increased to 16% effective July 1, 1987). The Corporation will match 30% of the participant's deferral up to a maximum match of 1.8% of salary. The Corporation's matching contribution will be invested in the Corporation's common stock. The participant's pretax salary deferrals will be invested, at the participant's direction, in a Corporation stock fund, an aggressive fund, a low-risk government guaranteed fund, or in a combination of those funds.

Participants will be 100% vested in their salary deferrals and all earnings on those deferrals. However, the Corporation's matching contribution and earnings thereon will become 100% vested only upon the participant's fifth year of vesting service with the Corporation, with 20% vesting being given for each year up to the fifth year. Regardless of years of vesting service, a participant will be 100% vested in the Corporation's contribution and earnings thereon when the participant reaches age 65, or if the participant dies while employed or becomes disabled.

Investment Plan benefits will be paid upon retirement, termination of employment, disability or death. In addition, benefits may be distributed to a participant in the event of financial hardship.

Cash contributions by the Corporation on behalf of the executive officers for the last fiscal year are included in the bonus column of the Executive Cash Compensation table.

STOCK OPTION PLAN

Under the Stock Option Plan, approved by the shareholders in 1982 (the "Option Plan"), the Compensation Committee of the Board consisting of four directors, may grant to officers or key employees options to purchase the Corporation's common stock. The maximum number of shares which may be issued under the Option Plan is 122,464. Options to purchase 112,978 shares have been granted and are outstanding under this Plan. The option price is determined by the Committee. For Incentive Stock Options granted under the Option Plan, the option price cannot be less than the fair market value of the common stock on the date of grant. The Committee has discretion to grant non-qualified stock options at less than the fair market value. The Committee has the authority to establish the time or times at which optioned shares may be purchased, and it may vary among the optionees. Options expire ten years from date of grant or upon termination of employment. Options become exercisable at the rate of twenty percent of the optioned shares in each twelve month period commencing five years after the date of grant. Any option shares which may be, but are not purchased in one such twelve month period may be purchased in a subsequent twelve month period, provided all options for the purchase of option shares must be exercised within ten years from date of grant.

An option may be exercised by paying the option price in cash, in shares of the Corporation's common stock (valued at their fair market value), or in any combination of cash and shares. When a nonqualified option is exercised, the optionee must also pay related withholding and F.I.C.A. taxes.

During the last fiscal year, no options were granted or exercised under the Stock Option Plan.

The purpose of the Plan is to encourage ownership of common stock by key employees, provide incentive for maximum effort in the successful operation of the Corporation and attract and retain personnel of the best available talent. The Committee has discretion in granting options to achieve these purposes.

LONG-TERM INCENTIVE STOCK PLAN

Under the Long-Term Incentive Stock Plan (the "Plan"), approved by the shareholders in 1986, the Corporation may grant to its key employees (1) Non-Qualified Stock Options, (2) Incentive Stock Options, and (3) Restricted Stock Awards, according to the procedures established by the Plan. The maximum number of shares which may be issued under the Plan is 350,000.

The Compensation Committee has been delegated the authority to determine the number of shares subject to each option or award, the option or purchase price of each option or award, the applicable vesting period, any other terms of each option or award and generally the rules, regulations and interpretations applicable to each option or award. The stock options and restricted stock awards include provisions for acceleration of such applicable vesting period in the event of certain transactions which may result in a change of control of the Corporation.

Special provisions apply to the following options and awards:

Incentive Stock Options

The option price may not be less than the fair market value of the Corporation's common stock on the date of grant and the aggregate fair market value (determined on the date of grant) of options which become exercisable for any one individual in a calendar year may not exceed $100,000. The option price must be paid in full at the time of exercise. During the fiscal year ended February 28, 1987, the Committee granted the following Incentive Stock Options to the executive officers listed in the Cash Compensation Table and to all executive officers as a group:

Optionee	Number of Shares
Robert A. Steinseifer	3,664
All 11 executive officers as a group	13,144

Non-Qualified Stock Options

The option price must be paid in full at the time of exercise, together with the amount of federal, state or local taxes of any kind required to be withheld by the Corporation. No Non-Qualified Options have been granted under the Plan. The Committee has discretion to grant non-qualified stock options at less than the fair market value.

Restricted Stock Awards

The Committee may award restricted stock to key employees who have performed valuable services to the Corporation or sell such shares to key employees for not less than the aggregate par value of the shares covered by the award. Restricted stock may not be sold or otherwise disposed of during the restriction period determined by the Committee and is subject to forfeiture in the event the employee is terminated other than by reason of death, disability or normal retirement. During the fiscal year ended February 28, 1987, the Committee made the following Restricted Stock Awards under the Plan to the executive officers listed in the Cash Compensation Table and to all executive officers as a group:

Optionee	Number of Shares
James W. Bernard	40,000
Robert A. Steinseifer	3,934
All 11 executive officers as a group	50,131

These Restricted Stock Awards become 50% vested after seven years and 100% vested at the end of eight years. The purpose of the Plan is to encourage ownership of common stock by key employees, provide incentive for maximum effort in the successful operation of the Corporation and attract and retain personnel of the best available talent. The Committee has discretion in granting options or making awards to achieve these purposes.

AGREEMENTS WITH CERTAIN OFFICERS

The Board of Directors has approved change of control agreements (the "Agreements") between the Corporation and James W. Bernard, N. Stewart Rogers, Robert A. Steinseifer, and A.C. McNeight (the "Executives"). Each Agreement provides that the Executive will receive compensation for 30 months if his employment is terminated (voluntarily or involuntarily) for any reason other than gross misconduct, death, disability, or reaching age 65, provided such termination occurs within 24 months after certain defined events which might lead to a change in control of the Corporation. The compensation will be paid at a rate equal to the Executive's then current salary and target bonus. The compensation is subject to a minimum annual rate of not less than the Executive's average compensation for the preceding three calendar years, and is subject to reduction if the aggregate present value of all payments would exceed three times the Executive's "annualized includable compensation," as defined in Section 280G of the Internal Revenue Code, for the Executive's most recent five taxable years. The Executive will also continue to have "employee" status for the 30 month period and will be entitled to retain most employee benefits and rights during this period.

The estimated aggregate amounts presently payable in the event of a change of control (assuming each officer receives payments for the maximum 30-month period) would be: Mr. Bernard $965,930, Mr. N. Stewart Rogers $582,083, Mr. Steinseifer $604,200 and Mr. McNeight $325,933. The foregoing does not include the value of any employee benefits which might be payable to the officer during the 30-month period.

Although the Corporation believes that it is highly unlikely that the compensation or other benefits payable or vesting upon the Executive's termination will constitute "golden parachute payments" under the Internal Revenue Code, the Agreements do provide for indemnification against excise taxes payable by the Executive in the event of such a determination. The Corporation may cease payments in the event the Executive breaches certain non-competition or confidentiality covenants. The Corporation also has the right to terminate the Agreements upon a one-year notice, except as to rights accruing as a result of an event which has triggered the change of control provisions of the Agreements. The Board of Directors believes that the terms and conditions of the Agreements are in the best interest of the Corporation.

PROPOSAL TO AMEND CERTIFICATE OF INCORPORATION

The Corporation's Board of Directors recommends that the shareholders consider and approve a proposal to amend the Corporation's Certificate of Incorporation to include a new Article XIII. The proposed Article XIII would limit the personal liability of the Corporation's directors to the Corporation or its shareholders for monetary damages for certain breaches of fiduciary duty.

Proposed Article XIII is consistent with Section 102(b)(7) of the Delaware General Corporation Law ("DGCL") enacted by the Delaware legislature in June 1986, described below, which is designed, among other things, to encourage qualified individuals to serve as directors of Delaware corporations by permitting Delaware corporations to include in their certificates of incorporation a provision limiting directors' liability for monetary damages for breach of the duty of care. Section 102 (b)(7) of the DGCL is an enabling provision only. An amendment to the certificate of incorporation approved by shareholders is required to effect the permitted limitation on liability.

The text of the proposed Article XIII, which is described in greater detail below, is as follows:

ARTICLE XIII
LIMITATION OF LIABILITY

To the fullest extent permitted by the Delaware General Corporation Law as the same exists or may hereafter be amended, a director of this Corporation shall not be liable to the Corporation or its shareholders for monetary damages for breach of duty as a director.

The Corporation's Board of Directors believes that it is appropriate and advisable that the shareholders adopt the proposed amendment to the Certificate of Incorporation and recommends that the shareholders vote to approve and adopt the proposed amendment.

Background and Reasons for Proposed Amendment. In performing their duties, directors of a Delaware corporation are obligated as fiduciaries to exercise their business judgment and act in what they reasonably determine in good faith, after appropriate consideration, to be in the best interests of the corporation and its shareholders. Decisions made on that basis are protected by the so-called "business judgment rule" which is designed to protect directors from personal liability to the corporation or its shareholders when their business decisions are subsequently challenged. Directors have historically relied on indemnity from and insurance procured by the corporations which they serve to provide for the expense of defending lawsuits and uncertainties in the application of the business judgment rule. The Delaware legislature has recognized that adequate insurance and indemnity provisions are often a condition of an individual's willingness to serve as a director of a Delaware corporation. The DGCL has for some time specifically permitted corporations to provide indemnity and procure insurance for its directors and officers, and existing Section 6.1 of the Bylaws of the Corporation presently provides for indemnification of officers and directors to the fullest extent permitted under Delaware law.

Recent changes in the market for directors and officers liability insurance have resulted in the unavailability for directors and officers of many corporations of any meaningful liability insurance coverage. Insurance carriers have in certain cases declined to renew existing directors and officers liability policies, or have increased premiums to such an extent that the cost of obtaining such insurance becomes prohibitive. Moreover, current policies often exclude coverage for areas where the service of qualified independent directors is most needed. For example, many policies do not cover liabilities or expenses arising from directors and officers activities in response to attempts to take over a corporation. Such limitations on the scope of insurance coverage, along with high deductibles and low limits of liability, have undermined meaningful directors and officers liability insurance coverage.

The unavailability of meaningful directors and officers liability insurance is attributable to a number of factors, many of which are affecting the liability insurance industry generally, including the granting of unprecedented damage awards and reduced investment income on insurance company investments. Although the Corporation has to date been able to obtain insurance coverage for directors and officers on a basis which it believes acceptable, the Corporation has experienced the increase in premiums and limitations in the scope of coverage which is symptomatic of the problems generally in the liability insurance industry. Moreover, the Corporation's current policies expire yearly. Hence, the

Corporation is exposed to yearly renegotiation of premiums and coverage, as well as cancellation, in the future. The proposed amendment is designed to assure that the Corporation's directors and officers do not lose the protection they have had in the past if insurance coverage decreases or becomes unavailable.

The Corporation believes that the inability of corporations to provide meaningful director and officer liability insurance has had a damaging effect on the ability of public corporations to recruit and retain corporate directors. Although the Corporation has not directly experienced this problem, the Corporation's Board of Directors believes that the Corporation should take every possible step to ensure that the Corporation will continue to be able to attract the best possible officers and directors.

Recognizing the potential threat to Delaware corporations caused by the recent changes in the market for liability insurance for directors and officers, in June of 1986 the Delaware legislature enacted amendments of the DGCL designed to permit Delaware corporations to limit director liability under certain circumstances and clarifying the scope of indemnification authorized by the statute. In the official synopsis of the bill that was enacted, the Delaware legislature stated that "the unavailability of traditional [insurance] policies (and, in many cases, the unavailability of any type of policy from traditional insurance carriers) has threatened the quality and stability of the governance of Delaware corporations because directors have become unwilling, in many instances, to serve without the protection such insurance provides and, in other instances, may be deterred by the unavailability of insurance in certain circumstances from making entrepreneurial decisions." Accordingly, the Delaware legislature revised the DGCL (i) so as to permit Delaware corporations to limit or eliminate personal liability of directors under certain circumstances by means of an amendment to the certificate of incorporation approved by shareholders, and (ii) to clarify the ability of corporations to provide substitute protection, in the form of indemnity.

The proposed amendment to the Certificate of Incorporation is consistent with the recent amendments to the DGCL. The primary purpose of the proposed amendment and the reason it is being recommended to shareholders is to ensure that the Corporation will continue to be able to attract individuals of the highest quality and ability to serve as directors.

Proposed Amendment to the Certificate of Incorporation. The following description is a summary of the proposed amendment. Under the laws of Delaware, each director owes certain fiduciary duties to the Corporation and to its shareholders. These duties include a duty of loyalty and a duty of care. Applicable decisional law requires not only that a director refrain from fraud, bad faith, self-dealing and transactions involving material conflicts of interest (the duty of loyalty), but also that the director exercise his or her business judgment on an informed basis (the duty of care). In appropriate cases, shareholders of a Delaware corporation may bring an action to recover monetary damages from directors for breach of such fiduciary duties, including the duty of care, and a shareholder may also seek to enjoin or rescind a transaction resulting from such a breach.

Proposed Article XIII provides that a director of the Corporation shall not be personally liable to the Corporation or its shareholders for monetary damages for breach of fiduciary duty as a director except under certain circumstances. Those circumstances, in which liability would continue to be imposed, include liability (i) for any breach of the director's duty of loyalty to the Corporation or its shareholders; (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law; (iii) for paying a dividend or approving a stock repurchase in violation of Section 174 of the DGCL or (iv) for any transaction from which the director derived an improper personal benefit. If the DGCL is amended after approval by the shareholders of the proposed amendment to the Certificate of Incorporation to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the Corporation would be eliminated or limited to the fullest extent permitted by the DGCL, as so amended.

Proposed Article XIII would protect the Corporation's directors against personal liability from breaches of their duty of care. Under Delaware law, absent adoption of the proposed amendment, directors can be held liable for gross negligence, as that term may be defined by the Delaware courts, in connection with decisions made in the performance of their duty of care, but not for simple negligence. In a context not involving a decision by the Board of Directors (i.e., a suit alleging loss to the Corporation due to the directors' inattention to a particular matter), a simple negligence standard might apply. If adopted by the shareholders, proposed Article XIII would absolve directors of liability for negligence in the performance of their duties, including gross negligence. Directors would remain liable for breaches of their duty of loyalty to the Corporation and its shareholders, as well as acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law and transactions from which a director derives improper personal benefit. The proposed amendment would not absolve directors of liability under Section 174 of the DGCL, which makes directors personally liable for unlawful dividends or unlawful stock repurchases or redemptions and expressly sets forth a negligence standard with respect to such liability, and the proposed amendment would not eliminate or limit liability of directors arising in connection with causes of action brought under federal securities laws. The new statute and the proposed amendment will only limit a director's liability to the Corporation and its shareholders, and will not affect the liability of a director to any other party.

While the proposed Article XIII provides directors with protection from awards of monetary damages for breaches of the duty of care, it does not eliminate the directors' duty of care. Accordingly, the proposed Article XIII would have no effect on the availability of equitable remedies such as an injunction or rescission based upon a director's breach of the duty of care. Furthermore, liabilities which may arise out of acts or omissions occurring prior to the adoption of the amendment would not be covered by Article XIII so that directors would remain potentially liable for monetary damages in connection with any such acts or omissions. In addition, Article XIII would apply only to claims against a director arising out of his or her role as a director, and would not apply, if he or she is also an officer, to his or her role as an officer or in any capacity other than that of a director. Under Article XIII, directors would not be liable for monetary damages for a grossly negligent business decision made in connection with attempts to acquire the Corporation.

Section 102 (b) (7) of the DGCL has only recently been adopted, and there have been no judicial interpretations of its validity or applicability. Accordingly, the potential outcome of any litigation arising out of interpretations of the statute cannot be fully ascertained at this time.

The Corporation has not received notice of any proceeding to which Article XIII might apply. In addition, the proposed amendment is not being proposed in response to any specific resignation, threat of resignation or refusal to serve by any director or potential director. Accordingly, the Corporation is not aware of any present or pre-existing circumstances or events to which this proposal might apply. The Board of Directors and management recognize that adoption of the new amendment may have the effect of reducing the likelihood of derivative litigation against directors, and may also discourage or deter shareholders from bringing a lawsuit against directors for breach of their duty of care, even though such an action, if successful, would benefit the Corporation and its shareholders. In addition, under certain circumstances the Corporation and its shareholders may, as a result of the proposed amendment, lose the opportunity to obtain monetary damages from directors.

The Board of Directors acknowledges that current and future directors would personally benefit from the approval of the foregoing amendment and in this connection the Board of Directors may be considered to have a conflict of interest. For the reasons stated in the section captioned "Background and Reasons for Proposed Amendment," however, approval of such amendment is recommended by the Board of Directors. Proxies solicited by the Board of Directors will be so voted unless shareholders specify in their proxies a contrary choice.

Approval of the proposed amendment requires the affirmative vote of the holders of a majority of the outstanding shares of Common Stock.

The Board of Directors unanimously recommends approval of the Proposal.

SELECTION OF INDEPENDENT PUBLIC ACCOUNTANTS

The Board of Directors has selected the firm of Arthur Andersen & Co., independent public accountants, to audit the accounts of the Corporation and its subsidiaries for fiscal year ending February 29, 1988. Arthur Andersen & Co. have audited the accounts of the Corporation since its incorporation. The shareholders are asked to signify their ratification or disapproval of this selection.

A representative of Arthur Andersen & Co. will be present at the shareholders' meeting with the opportunity to make a statement if he desires to do so and will be available to respond to appropriate questions.

The Board of Directors recommends a vote FOR this selection.

PROPOSALS OF SECURITY HOLDERS

Proposals of security holders intended to be presented at the annual meeting of August 26, 1988, must be received by Univar Corporation no later than March 18, 1988 to be included in the Corporation's 1988 proxy statement and form of proxy relating to that meeting.

OTHER BUSINESS

The Board of Directors has no knowledge of any other business to be acted upon at this meeting. If, however, any other business is presented to the meeting, proxies will be voted in accordance with the judgment of the person or persons voting such proxies unless the proxies are so marked to preclude such discretionary authority.

The Annual Report of the Corporation for the fiscal year ended February 28, 1987 has been mailed to the shareholders.

July 6, 1987

By Order of the Board of Directors
Barry C. Maulding
Corporate Secretary

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

AS AMENDED BY FORM 8
AUGUST 6, 1987

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended February 28, 1987 Commission file number 1-5858

Univar Corporation
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Delaware
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)

91-0816142
(I.R.S. EMPLOYER IDENTIFICATION NO.)

1600 Norton Building Seattle, Washington
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

98104
(ZIP CODE)

Registrant's telephone number, including area code (206) 447-5911

Securities registered pursuant to Section 12(b) of the Act:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock $.33 1/3	New York Stock Exchange Pacific Stock Exchange
9-3/4% Sub. Sink. Fund Debentures	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None
(TITLE OF CLASS)

(TITLE OF CLASS)

INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED ALL REPORTS REQUIRED TO BE FILED BY SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 DURING THE PRECEDING 12 MONTHS (OR FOR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED TO FILE SUCH REPORTS), AND (2) HAS BEEN SUBJECT TO SUCH FILING REQUIREMENTS FOR THE PAST 90 DAYS. YES ☒ NO ☐

STATE THE AGGREGATE MARKET VALUE OF THE VOTING STOCK HELD BY NONAFFILIATES OF THE REGISTRANT. (THE AGGREGATE MARKET VALUE SHALL BE COMPUTED BY REFERENCE TO THE PRICE AT WHICH THE STOCK WAS SOLD, OR THE AVERAGE BID AND ASKED PRICES OF SUCH STOCK, AS OF A SPECIFIED DATE WITHIN 60 DAYS PRIOR TO THE DATE OF FILING.)

As of May 18, 1987 the aggregate market value of the voting stock held by nonaffiliates was approximately $84.2 million

INDICATE THE NUMBER OF SHARES OUTSTANDING OF EACH OF THE REGISTRANT'S CLASSES OF COMMON STOCK, AS OF THE LATEST PRACTICABLE DATE (APPLICABLE ONLY TO CORPORATE REGISTRANTS.)

As of May 18, 1987 there were 8,682,283 shares of common stock issued outstanding

DOCUMENTS INCORPORATED BY REFERENCE: LIST THE FOLLOWING DOCUMENTS IF INCORPORATED BY REFERENCE AND THE PART OF THE FORM 10-K INTO WHICH THE DOCUMENT IS INCORPORATED: (1) ANY ANNUAL REPORT TO SECURITY HOLDERS; (2) ANY PROXY OR INFORMATION STATEMENT; AND (3) ANY PROSPECTUS FILED PURSUANT TO RULE 424(b) OR (c) UNDER THE SECURITIES ACT OF 1933. (THE LISTED DOCUMENTS SHOULD BE CLEARLY DESCRIBED FOR IDENTIFICATION PURPOSES.)

	Form 10-K
1) Annual Report to Shareholders for the year ended 2/28/87	Part I, Item 1 (Industry Segments) Part II, Items 5-8 Part IV, Item 14

BR001195

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d)
OF THE SECURITIES AND EXCHANGE ACT OF 1934

Documents incorporated by reference: (Continued)

	Form 10-K
2) Proxy Statement for annual meeting of shareholders to be held on August 21, 1987	Part III, Item 10 (Directors Only) Item 11, Item 12(b) and Item 13

PART I.

ITEM 1. BUSINESS

Univar Corporation was incorporated in September, 1966 to become the successor corporation in the merger of Van Waters & Rogers Inc. and United Pacific Corporation, both long established companies then doing business in the western United States and western Canada. For the fiscal year ended February 28, 1987, Univar Corporation (Univar or the Company) and its wholly-owned subsidiaries were involved in the distribution of industrial and agricultural chemicals and related products. Van Waters & Rogers Inc. conducts its operations throughout the United States. Van Waters & Rogers Ltd. conducts its operations throughout Canada.

The businesses of Univar formerly included the industrial distribution of laboratory equipment and supplies, textiles and supplies, and electronic components. The divisions operating this business - VWR Scientific, VW&R Home Furnishings and Acacia - were separately incorporated and the shares of stock of their parent corporation, VWR Corporation, were distributed to shareholders of Univar who were shareholders of record February 28, 1986. Information concerning this distribution is available in the Information Statement Concerning the Distribution of 5,601,730 shares of VWR Corporation Common Stock by Univar Corporation, dated January 31, 1986.

Effective November 1, 1986 Univar acquired, through a transaction accounted for as a purchase, the assets of McKesson Chemical Co. (MCC), one of the leading national distributors of industrial chemicals. Concurrent with the acquisition, the assets of the former Van Waters & Rogers division in the U.S. were combined with the MCC operations and those activities are now carried on through a wholly-owned subsidiary, Van Waters & Rogers Inc.

MCC had approximately 1,400 employees and generated sales of approximately $604,000,000 in its most recent fiscal year, so its acquisition represents an approximate doubling of Univar's business.

The transaction was an extremely important one in the development of Univar -- one which doubled the Company in size and has made it the largest industrial chemical distributor in North America.

Financial Information About Industry Segments

Industry Segment information for Univar for each of the last three fiscal years is reported in the Univar Corporation 1987 Annual Report on page 29, under the caption of Note 14. Industry Segment Information is incorporated herein by reference.

Raw Materials

Numerous sources of supply generally exist for all raw materials essential to the business.

Patents, Trademarks and Trade Names

Univar and its subsidiaries own certain trademarks and tradenames. Univar does not regard the patents or trademarks as being of particular importance in its current operations.

Seasonal Business

No material portion of the continuing operations of the registrant or its subsidiaries is regarded as highly seasonal.

Principal Customers

No segment of the continuing operations of the Company is dependent upon a single customer or a few customers, the loss of any one or more of whom would have a material adverse effect on the segment.

Competitive Conditions

In the distribution of chemicals and related products, Van Waters & Rogers Inc. and Van Waters & Rogers Ltd. compete with local, regional and national distributors, as well as manufacturers who sell direct. Although the acquisition of MCC established Univar as the largest industrial chemical distributor in North America, the Company faces significant competition from distributors who have a larger market share within local and regional markets as well as numerous other national distributors.

Research and Development

Univar and its subsidiaries do not engage in research activities relating to the development of new products and the improvements of existing products.

Environmental Regulation

It is not anticipated that compliance with federal, state and local provisions relating to the protection of the environment will have a material adverse effect on capital expenditures, earnings or competitive position of the registrant or its subsidiaries.

Employees

Two thousand four hundred fifty-three persons were employed by Univar and its subsidiaries as of February 28, 1987.

Backlog

No record of the backlog of orders is maintained.